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September 28, 2021

VIA ELECTRONIC MAIL AND HAND DELIVERY

Luly E. Massaro, Commission Clerk
Rhode Island Division of Public Utilities and Carriers
89 Jefferson Boulevard
Warwick, RI 02888

Re: Petition of PPL Corporation, PPL Rhode Island Holdings, LLC, National Grid USA, and The Narragansett Electric Company for Authority to Transfer Ownership of The Narragansett Electric Company to PPL Rhode Island Holdings, LLC and Related Approvals; Docket No. D-21-09

Dear Ms. Massaro:

Enclosed please find an original and four copies of PPL Corporation ("PPL") and PPL Rhode Island Holdings, LLC's ("PPL RI") Responses and Objections to the Division of Public Utilities and Carriers' Advocacy Section's Eighth Set of Data Requests, issued on September 7, 2021 (the "Eighth Set of Data Requests").

This filing includes PPL and PPL RI's partial responses to the Eighth Set of Data Requests, specifically 8-1 through 8-14 and 8-16. On September 27, 2021, the Division Advocacy Section granted National Grid USA and The Narragansett Electric Company's request for an extension on the response to data request Division 8-15, which will be provided as soon as practicable after the responsive information is available.

Thank you for your attention to this matter. Please do not hesitate to contact me should you have any questions.

Very truly yours,

Adam M. Ramos

Enclosures

cc: Service List D-21-09 (via e-mail only)

Docket No. D-21-09 PPL Corp., PPL RI Holdings, LLC, National Grid USA and The Narragansett Electric Co. (collectively, Applicants) – Petition to Transfer Ownership and Related Approvals

Service List Updated 8/18/2021

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October 6, 2021

VIA ELECTRONIC MAIL AND HAND DELIVERY

Luly E. Massaro, Commission Clerk
Rhode Island Division of Public Utilities and Carriers
89 Jefferson Boulevard
Warwick, RI 02888

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This filing includes PPL and PPL RI's partial responses to the Eighth Set of Data Requests, specifically 8-15. On September 27, 2021, the Division Advocacy Section granted National Grid USA and The Narragansett Electric Company's request for an extension on the response to data request Division 8-15. This completes PPL and PPL RI's responses to the Eighth Set of Data Requests.

Thank you for your attention to this matter. Please do not hesitate to contact me should you have any questions.

Very truly yours,

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Division 8-1

Request:

Is it Applicants' position that PPL's acquisition of Narragansett will not increase either Narragansett's cost of capital or the allowed rate of return as compared to the alternative of continued ownership of Narragansett by National Grid? If so, please explain the basis for this position and provide all supporting documentation. If this is not Applicants' position, or if the Applicants cannot make this commitment, please explain why not.

Response:

PPL does not expect Narragansett's cost of capital or the allowed rate of return to increase as a result of PPL's ownership upon close of the Transaction. Narragansett will continue to exist as a standalone company within PPL, and it will have its own capital structure and allowed rate of return based on its business operations and financial risks. Additionally, as a U.S. utility holding company, PPL's cost of capital is substantially similar to that of National Grid with investors requiring comparable expected returns.

PPL cannot commit, however, to an unchanged cost of capital or allowed rate of return prospectively, as market conditions may change in the future that require PPL to re-evaluate the required cost of capital and the allowed rate of return in future rate cases, which will be subject to Rhode Island Public Utilities Commission review and approval.

Accordingly, any future change in Narragansett's cost of capital or allowed rate of return will not be because of PPL's acquisition of Narragansett.

Division 8-2

Request:

Please provide a schedule or workpaper showing Narragansett's actual cost of long-term debt as of June 30, 2021. This schedule should identify each long-term debt issue outstanding including: the balance outstanding at that date, the interest or cost rate, date of issue, date of maturity, issuance cost, and debt discount/premium.

Response:

PPL and PPL RI refer to the response of National Grid USA and The Narragansett Electric Company to data request Division 8-2.

Division 8-3

Request:

Please provide a detailed description of how Narragansett will acquire its needed short-term debt and liquidity post-Transaction. The response should describe any plans or arrangements for Narragansett to have its own credit facility, operate under a PPL affiliate credit facility, and/or use a commercial paper program.

Response:

PPL expects Narragansett to have excess cash upon closing as a result of National Grid's $600 million long-term debt issuance in April 2020 that will provide liquidity post-Transaction. PPL expects to supplement this cash position by establishing a third-party credit facility for Narragansett, as well as a PPL-affiliate borrowing arrangement for purposes of providing adequate liquidity to fund working capital. The affiliate borrowing arrangement will likely include the ability for Narragansett to lend to and from PPL affiliates, providing the ability to maximize returns on excess cash and minimize interest costs for working capital. The third-party credit facility will provide an efficient cost of borrowing commensurate with Narragansett's stand-alone credit ratings and likely access to the commercial paper market.

Prepared by or under the supervision of: Tadd Henninger

Division 8-4

Request:

To the extent not already provided, please provide all credit rating reports issued since January 1, 2020 for PPL and each of PPL's U. S. utility subsidiaries.

Response:

PPL and PPL RI refer to the following attachments, which represent all credit rating reports issued since January 1, 2020 for PPL and each of PPL's U.S. utility subsidiaries:

- Attachment PPL-DIV 8-4-1
- Attachment PPL-DIV 8-4-2
- Attachment PPL-DIV 8-4-3
- Attachment PPL-DIV 8-4-4
- Attachment PPL-DIV 8-4-5
- Attachment PPL-DIV 8-4-6
- Attachment PPL-DIV 8-4-7
- Attachment PPL-DIV 8-4-8
- Attachment PPL-DIV 8-4-9
- Attachment PPL-DIV 8-4-10
- Attachment PPL-DIV 8-4-11
- Attachment PPL-DIV 8-4-12
- Attachment PPL-DIV 8-4-13
- Attachment PPL-DIV 8-4-14
- Attachment PPL-DIV 8-4-15
- Attachment PPL-DIV 8-4-16
- Attachment PPL-DIV 8-4-17
- Attachment PPL-DIV 8-4-18
- Attachment PPL-DIV 8-4-19
- Attachment PPL-DIV 8-4-20
- Attachment PPL-DIV 8-4-21

Prepared by or under the supervision of: Tadd Henninger

INFRASTRUCTURE AND PROJECT FINANCE

MOODY'S INVESTORS SERVICE

CREDIT OPINION
22 May 2020

Update

Rate this Research

RATINGS

PPL Electric Utilities Corporation

Domicile	Pennsylvania, United States
Long Term Rating	A3
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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PPL Electric Utilities Corporation

Update to credit analysis

Summary

PPL Electric Utilities Corporation's (PPLEU) credit strengths include its low business risk profile, the generally stable and predictable nature of its regulated electric transmission and distribution (T&D) utility cash flows, and the credit supportive regulatory frameworks of the Pennsylvania Public Utilities Commission (PAPUC) and the Federal Energy Regulatory Commission (FERC). PPLEU contributes approximately 30% of the cash flow and accounts for 27% of the rate base of its diversified, low business risk parent company, PPL Corporation (PPL). These positive factors are offset by PPLEU's ~$3.8 billion capital investment plan over the next five years, which may slightly weaken its credit metrics. However, we still expect these metrics to remain appropriate for its current credit profile.

The Pennsylvania regulatory environment is constructive due to its transparent framework. For example, in July 2018, new legislation was enacted that will allow Pennsylvania utilities to propose alternative ratemaking approaches including a performance based ratemaking mechanism and a decoupling mechanism. This is credit positive because it can improve the transparency of cost recovery for PPLEU, leading to more stable and predictable cash flows. However, we do not expect PPLEU to implement these new mechanisms over the next 12-18 months.

Recent developments

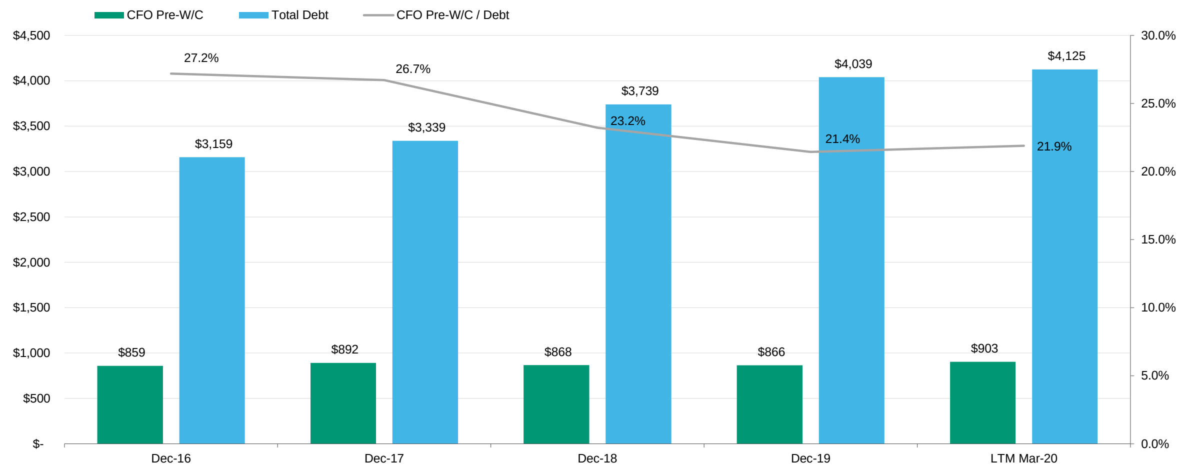
The economic costs of the coronavirus crisis amid the near shutdown of the global economy are accumulating rapidly. However, the US utility sector is more insulated from these risks than the hardest hit sectors, such as leisure, hospitality, travel and retail, due to its legal monopoly on an essential public and economic service. However, there is a possibility that broader political intervention becomes credit negative, if downside risks are realized, since high unemployment levels make rate increases politically less palatable.

We expect PPLEU to be resilient to these recessionary pressures. About half of PPLEU's rates are transmission based, which is not directly impacted by the decline in customer usage. Also, the near-term impact of the coronavirus on its overall distribution operation was not significant because the increase in residential sales mitigated the decrease in commercial and industrial customers sales.

On 20 May, we affirmed the ratings of PPLEU and its parent company, PPL Corporation. The affirmation of the ratings reflects our expectation that the credit profile of the PPL family will remain relatively stable over the next 2-3 years.

Exhibit 1

Historical CFO Pre-WC, Total Debt and CFO Pre-WC to Debt ($ MM)



Source: Moody's Financial Metrics

Credit strengths

» Low business risk profile

» Supportive regulatory frameworks under the PAPUC and FERC

» Stable financial profile with transparent and predictable cash flows

Credit challenges

» Large capital investment program

» Slightly pressured credit metrics due to high capex plan

Rating outlook

The stable outlook for PPLEU reflects the company's low business risk as an electric transmission and distribution utility in Pennsylvania, where we view the regulatory environment to be credit supportive. The stable outlook also incorporates our view that PPL Electric will continue to produce consistent cash flow and execute balanced equity and debt funding for its capital investments, producing metrics that are in line with the current rating.

Factors that could lead to an upgrade

PPLEU's rating could be upgraded if the regulatory environment improves materially and if its financial metrics improve such that its CFO pre-WC to debt ratio is above 22% on a sustained basis.

Factors that could lead to a downgrade

A rating downgrade could be considered for PPLEU if there is significant deterioration in the credit supportiveness of the regulatory environment; or if its financial metrics weaken such that CFO pre-WC to debt falls below 18% for an extended period.

Key indicators

Exhibit 2
PPL Electric Utilities Corporation [1]

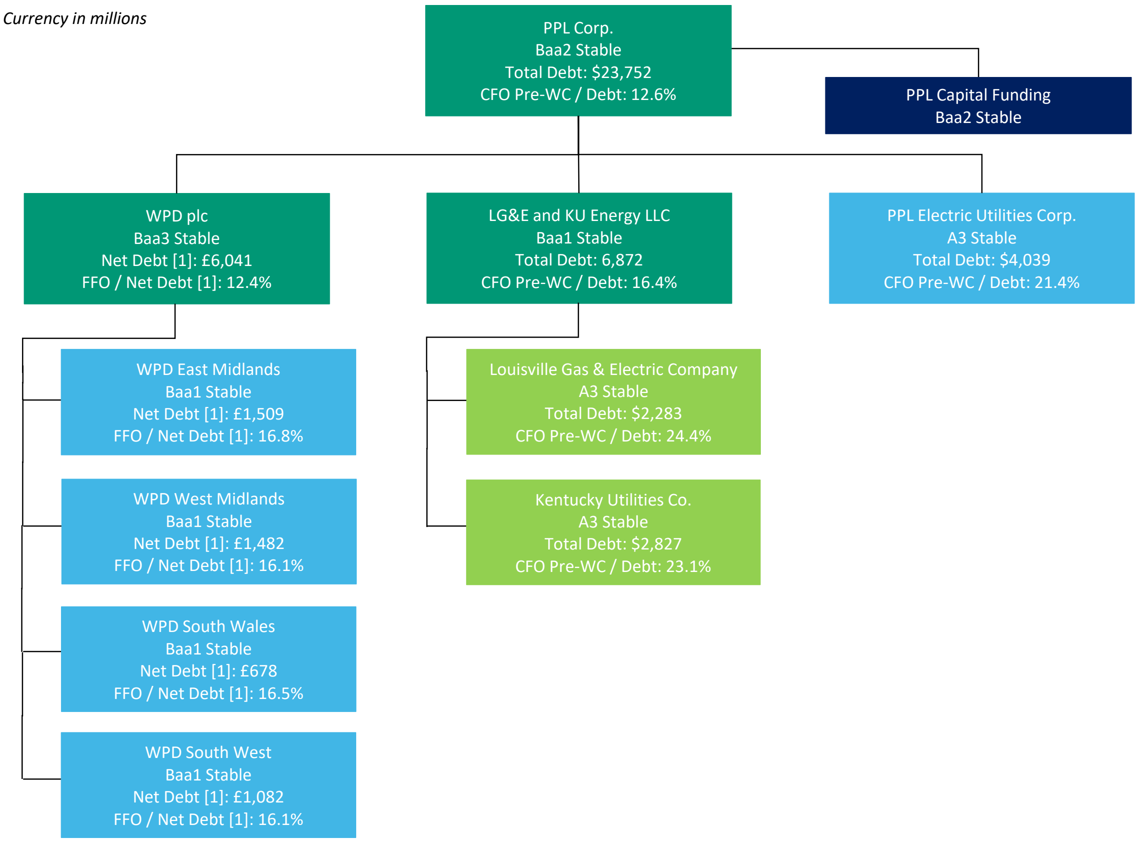
	Dec-16	Dec-17	Dec-18	Dec-19	LTM Mar-20
CFO Pre-W/C + Interest / Interest	7.7x	5.4x	5.2x	4.5x	4.6x
CFO Pre-W/C / Debt	27.2%	26.7%	23.2%	21.4%	21.9%
CFO Pre-W/C – Dividends / Debt	18.1%	16.7%	12.8%	9.4%	9.0%
Debt / Capitalization	37.5%	39.8%	39.7%	39.6%	40.2%

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Profile

PPL Electric Utilities (PPLEU) is a wholly-owned regulated utility subsidiary of PPL Corporation (PPL, Baa2 stable) that transmits and distributes electricity to approximately 1.4 million customers in eastern and central Pennsylvania. PPLEU is regulated by the Pennsylvania Public Utilities Commission and by the Federal Energy Regulatory Commission. Like other Pennsylvania transmission and distribution companies (T&D), PPLEU provides electric supply in its service territory as a provider of last resort (POLR). PPL is a utility holding company with approximately half of its operations in the UK through Western Power Distribution Plc (Baa3 stable). PPL is also the parent company of LG&E and KU Energy LLC (Baa1 stable), a holding company of vertically integrated utilities in Kentucky.

Exhibit 3
Organizational Structure
As of 31 December 2019
Currency in millions



[1] As of 3/31/2019; CFO Pre-WC to Debt is not a key metric we use for WPD and subsidiaries. WPD and subsidiaries are assessed under the Regulated Electric and Gas Networks Industry Grid
[2] Total debt and metrics are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Detailed Credit Considerations

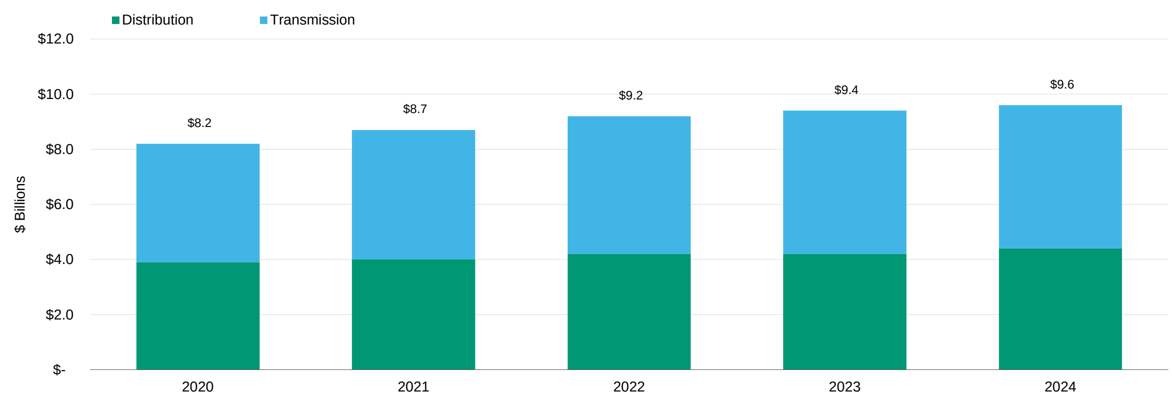
Low risk T&D utility operating in credit supportive regulatory environments

PPLEU is a low risk electric T&D utility in Pennsylvania regulated by the PAPUC and FERC, both with regulatory frameworks that we view as above average compared to other states. In Pennsylvania, the PAPUC allows utilities to use a fully projected future test year in rate proceedings, a credit positive, as it provides companies with the ability to forecast costs and earn a return on investments in a timely manner. PPLEU also utilizes a distribution system improvements charge (DSIC), a smart meter rider and other recovery mechanisms, reducing regulatory lag and providing for the timely recovery of and a return on incurred costs. These mechanisms provide the opportunity for accelerated cost recovery that will help support PPLEU's credit metrics during a period of elevated capital investments.

In 2018, Pennsylvania enacted new legislation for alternative ratemaking for electric and water utilities. The legislation includes revenue decoupling, performance-based rate plans, formula rates, multi-year rate plans, and are similar to the ratemaking mechanisms in the UK. While it is unlikely that PPLEU will request any changes to its ratemaking framework until its next general rate case, this new legislation authorizing alternative ratemaking mechanisms in Pennsylvania is credit positive for both PPLEU and PPL. It will provide greater transparency and stability to their cash flow and earnings when applied.

We do not anticipate PPLEU will file its next rate case over the next 12-18 months. PPLEU's last general distribution rate case concluded in November 2015 when a settlement was reached and approved. The settlement authorized a $124 million electric distribution rate increase although it did not specify other factors such as the allowed return on equity (ROE). In Feburary 2020, the PAPUC lowered the ROE for the Distribution System Infrastructure Charge (DSIC) by 10 basis points to 9.45%. Despite the decrease, we continue to view the mechanism to be credit supportive and expect PPLEU to continue to invest under this mechanism.

Exhibit 4
Projected PPLEU Rate Base



Source: Company Data

Relative to other electric utilities, a high percentage of PPLEU's rate base consists of FERC regulated transmission assets. As of year-end 2019, the rate base contribution from transmission was approximately 50% and is expected to grow to about 55% by 2023. We consider FERC regulation to be more predictable and credit supportive due to the formulaic nature of its rate case mechanisms. Based on the formula rate mechanism, PPLEU is currently authorized to earn an 11.68% ROE on its existing transmission assets, while the $650 million Susuehanna-Roseland transmission project is authorized to earn a 12.93% ROE due to incentive based rate treatment. Since the rate setting process is not contested before state commissions and given its design to ensure timely recovery, we generally consider revenue collected under this regulatory framework to be more stable and predictable than state regulated utility businesses.

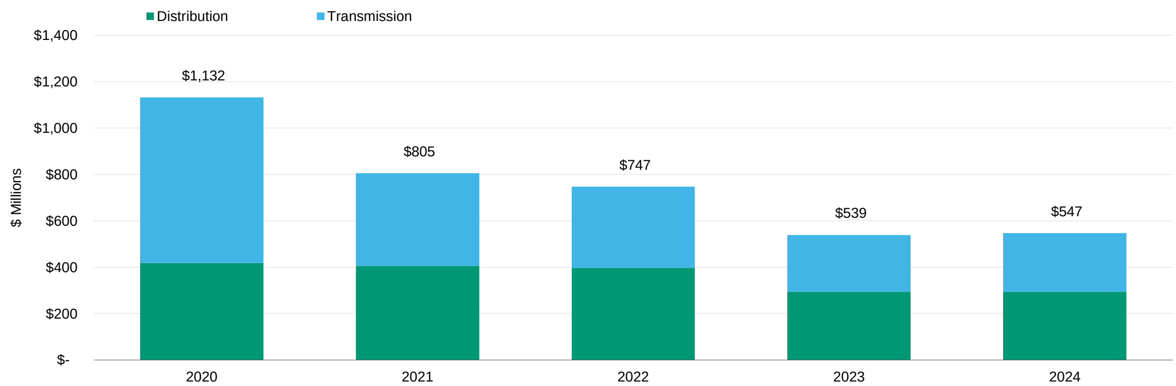
Under the terms of the formula rate tariff, rates are put into effect in June of each year based upon prior year actual expenditures and current year forecasted capital investments. Any difference in forecasted expenses and actual results from the prior year are recorded as a regulatory asset or liability, which ensures cost recovery (or an over-collection refund) in a timely manner.

Large capital investments planned in the near-term

PPLEU is currently in the midst of a large capital investment plan and expects to spend approximately $3.8 billion over the next five years. Annual capital expenditures in 2020 are expected to be above $1 billion, but will decrease going forward. The total is quite sizeable considering its rate base amounted to around $7.6 billion as of year end 2019. The majority of the 2020 investments are related to PPLEU's transmission segment, in which the company plans to invest approximately $700 million.

In addition, we view the company's distribution investments (about 47% of total expected spending) as having low construction and execution risk. Moreover, regulatory provisions such as a smart meter rider and the aforementioned DSIC mechanism significantly reduce regulatory lag by allowing PPLEU to earn a return on qualifying investments in less than six months. The company plans to spend about $1.8 billion of capital investments on distribution facilities over the next five years, with a material portion recoverable under these mechanisms.

Exhibit 5
Projected Capital Investment Plan



Source: Company Reports

While large transmission projects are more risky from an execution standpoint, we believe that the FERC has an effective regulatory framework for mitigating cost recovery risk. Additionally, PPLEU has a demonstrated track record of effectively managing costs and completing transmission projects on time. Examples of completed transmission lines included the Susquehanna-Roseland project and the Northeast Pocono Reliability Project.

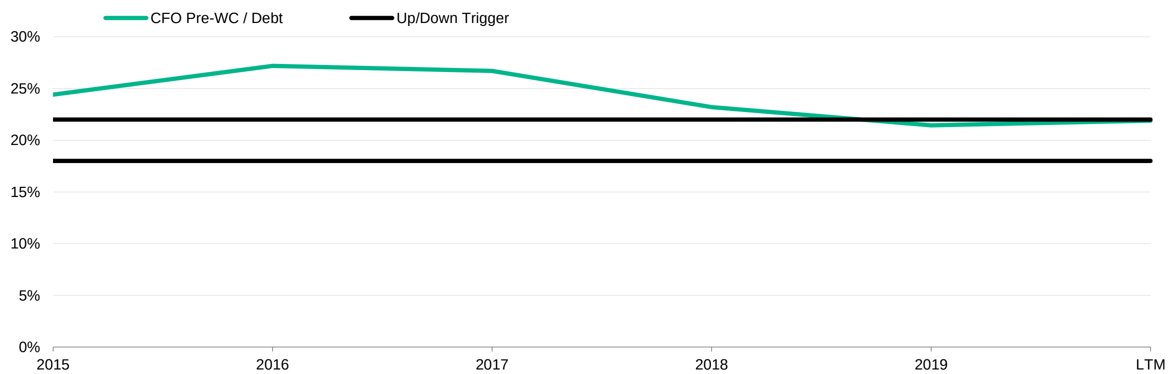
Adequate credit metrics expected through this high investment cycle

PPLEU has historically maintained stable financial metrics with its CFO pre-WC to debt in the mid-20% range. However, we expect its metrics to weaken such that its CFO pre-WC to debt will be around 20% over the next 12-18 months. Furthermore, it is possible that metrics may weaken further due the negative impact of the COVID pandemic. However, we do not expect the impact to be material because the utility experienced an increase in the residential usage while commercial and industrial customer usage declined. In 2018, residential sales generated approximately 77% of PPLEU's total revenue while commercial and industrial sales contributed the remainder.

PPL's metrics still position the company appropriately relative to its low business risk peers with similar credit profiles. As of the latest twelve months (LTM) period ending 31 March 2020, CFO pre-WC to debt was 21.9%, while its three year average was 23.4%. The decline in metrics is expected due to elevated capital investments. However, prudent cost recovery mechanisms that are in place should result in timely recovery of investments and should help PPLEU maintain key credit metrics within the appropriate ranges to support its current credit profile.

Exhibit 6

PPLEU's Historical CFO pre-WC to Debt vs Rating Thresholds



The thresholds are one of several factors that could lead to an upgrade or downgrade if CFO pre-W/C to debt is sustained above or below these levels.
Source: Moody's Financial Metrics

ESG considerations

PPLEU has low carbon transition risk within the regulated utility sector. We view PPLEU as having a lower level of carbon transition risk when compared to vertically integrated electric utilities, mainly due to its lack of generation asset ownership.

Social risks are primarily related to PPLEU's customer and regulatory relations as well as demographic and societal trends. PPLEU's regulatory environment as well as its interaction with the PAPUC and FERC are important in considering the company's social risk. Also, safety and reliability of its operations are extremely important for its social considerations. Given recent developments related to the COVID-19 pandemic, there is a possibility of increasing social risk longer term as the affordability of the utility bill and prolonged recessionary impact have a negative impact on PPLEU.

As a subsidiary of PPL, corporate governance considerations include the financial policy and risk management of its parent company. We note that a stable financial position is an important characteristic for managing environmental and social risks.

Liquidity analysis

We expect PPLEU to maintain an adequate liquidity profile over the next 12-18 months. Although the utility has an elevated capital investment program over the next few years, we anticipate its liquidity will be supported by relatively stable and predictable cash flows and good access to the capital markets.

PPLEU's liquidity is supported by a $650 million syndicated credit facility that expires in January 2024. This credit facility is used primarily as a back-stop for PPLEU's $650 million commercial paper program and to issue letters of credit. As of 31 March 2020, the credit facility had $564 million of available capacity. PPLEU's credit facility contains one financial covenant, a limitation on the ratio of debt to capitalization of 70%, which the company was in compliance with at the end of the first quarter of 2020. The facility does not contain a material adverse change clause.

Over the LTM period ending 31 March 2020, PPLEU generated cash flow from operations of approximately $887 million, spent about $1.1 billion in capital investments and paid $531 million in dividends, resulting in negative free cash flow of approximately $705 million. Due to the high level of planned capital investments, we expect PPLEU to remain in a negative free cash flow position over the next 12-18 months.

PPLEU's next long-term debt maturity is $400 million of senior secured notes due in September 2021.

Parent company PPL is an important source of liquidity for PPLEU. PPL is a major utility holding company with a market capitalization of about $20 billion and, as of 31 March 2020, had consolidated bilateral and syndicated credit facilities totaling $3.1 billion ($1.9 billion of it unused) in the US and $915 million of cash on hand on a consolidated basis.

Rating methodology and scorecard factors

Exhibit 7
Rating Factors
PPL Electric Utilities Corporation

Regulated Electric and Gas Utilities Industry Scorecard [1][2]	Current LTM 3/31/2020		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	N/A	N/A	N/A	N/A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	5.0x	A	4x - 4.5x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	23.4%	A	19% - 21%	A
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	12.1%	Baa	12% - 13%	Baa
d) Debt / Capitalization (3 Year Avg)	40.3%	A	40% - 42%	A
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching		0		0
a)Scorecard-Indicated Outcome		A3		A3
b) Actual Rating Assigned		A3		A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 3/31/2020(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Appendix

Exhibit 8

Cash Flow and Credit Metrics [1]

CF Metrics	Dec-16	Dec-17	Dec-18	Dec-19	LTM Mar-20
As Adjusted					
EBITDA	**966**	**1,059**	**1,099**	**1,186**	**1,187**
FFO	**833**	**892**	**875**	**861**	**887**
+/- Other	26	-	(7)	5	16
CFO Pre-WC	**859**	**892**	**868**	**866**	**903**
+/- ΔWC	13	(74)	60	(30)	(16)
CFO	**872**	**818**	**928**	**836**	**887**
- Div	288	336	390	486	531
- Capex	1,134	1,192	1,146	1,044	1,061
FCF	**(550)**	**(710)**	**(608)**	**(694)**	**(705)**
(CFO Pre-W/C) / Debt	27.2%	26.7%	23.2%	21.4%	21.9%
(CFO Pre-W/C - Dividends) / Debt	18.1%	16.7%	12.8%	9.4%	9.0%
FFO / Debt	26.4%	26.7%	23.4%	21.3%	21.5%
RCF / Debt	17.3%	16.7%	13.0%	9.3%	8.6%
Revenue	2,156	2,195	2,277	2,358	2,321
Cost of Good Sold	535	507	544	549	522
Interest Expense	129	204	209	247	249
Net Income	340	323	392	399	396
Total Assets	9,426	10,020	11,193	11,824	11,805
Total Liabilities	6,068	6,108	6,815	7,104	7,132
Total Equity	3,358	3,912	4,378	4,720	4,673

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months
Source: Moody's Financial Metrics

Exhibit 9

Peer Comparison Table [1]

	PPL Electric Utilities Corporation A3 Stable			Public Service Electric and Gas Company A2 Stable			Consolidated Edison Company of New York, Inc. Baa1 Stable			Virginia Electric and Power Company A2 Stable			Niagara Mohawk Power Corporation A3 Stable		
(in US millions)	FYE Dec-18	FYE Dec-19	LTM Mar-20	FYE Dec-18	FYE Dec-19	LTM Mar-20	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Mar-17	FYE Mar-18	FYE Mar-19
Revenue	2,277	2,358	2,321	6,471	6,625	6,476	10,468	10,680	10,821	7,556	7,619	8,108	2,849	3,040	3,412
CFO Pre-W/C	868	866	903	1,827	1,868	1,824	2,877	2,963	2,481	2,931	3,198	2,927	694	735	620
Total Debt	3,739	4,039	4,125	9,999	10,876	11,097	15,114	16,830	17,817	13,275	13,697	14,034	2,994	2,991	3,567
CFO Pre-W/C / Debt	23.2%	21.4%	21.9%	18.3%	17.2%	16.4%	19.0%	17.6%	13.9%	22.1%	23.3%	20.9%	23.2%	24.6%	17.4%
CFO Pre-W/C – Dividends / Debt	12.8%	9.4%	9.0%	18.3%	14.9%	12.6%	13.8%	12.6%	8.8%	13.1%	20.0%	19.5%	23.1%	6.2%	17.4%
Debt / Capitalization	39.7%	39.6%	40.2%	40.6%	40.5%	40.4%	46.2%	47.6%	47.1%	47.2%	46.2%	45.5%	31.1%	35.7%	38.3%

Source: Moody's Financial Metrics

Ratings

Exhibit 10

Category	Moody's Rating
PPL ELECTRIC UTILITIES CORPORATION	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Commercial Paper	P-2
PARENT: PPL CORPORATION	
Outlook	Stable
Issuer Rating	Baa2

Source: Moody's Investors Service

REPORT NUMBER 1229916

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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CREDIT OPINION
27 May 2021

Update

Rate this Research

RATINGS

PPL Electric Utilities Corporation

Domicile	Pennsylvania, United States
Long Term Rating	A3
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

PPL Electric Utilities Corporation

Update to credit analysis

Summary

PPL Electric Utilities Corporation's (PPLEU) credit strengths include its low business risk profile, the generally stable and predictable nature of its regulated electric transmission and distribution (T&D) utility cash flow, and the credit supportive regulatory frameworks of the Pennsylvania Public Utilities Commission (PAPUC) and the Federal Energy Regulatory Commission (FERC). PPLEU contributed approximately 32% of the cash flow and accounted for 28% of the rate base of its parent company, PPL Corporation (PPL, Baa2 positive) in 2020. These positive factors are offset by PPLEU's approximately $3.5 billion capital investment plan over the next five years, which will continue to pressure already weak credit metrics. However, we still expect stabilize these declining trends and maintain credit ratios that are appropriate for its current A3 rating. For example, we expect PPLEU to generate a cash flow from operations before changes in working capital (CFO pre-WC) to debt ratio between 18% and 20% over the next 12-18 months.

Recent developments

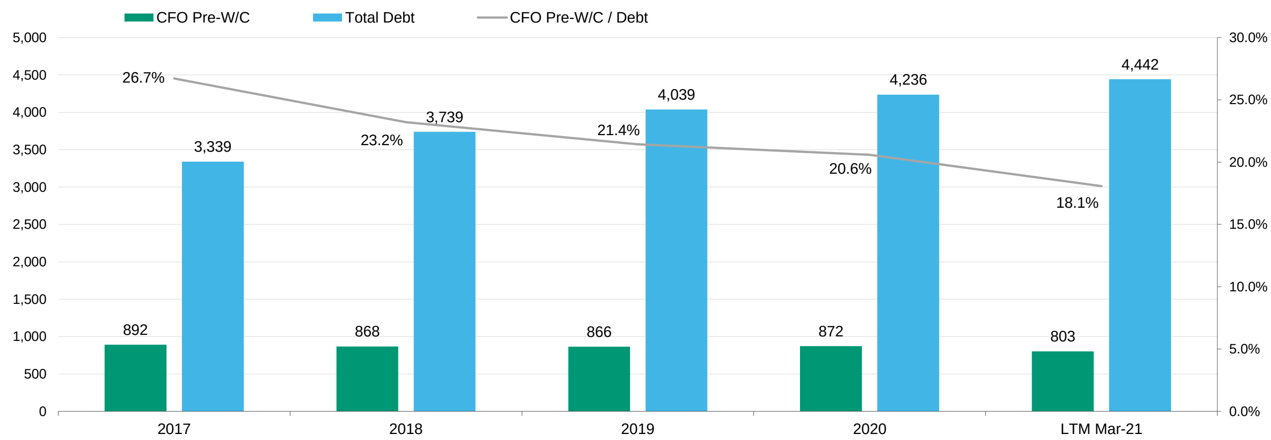
In March 2021, we affirmed parent PPL's Baa2 rating and changed the outlook to positive from stable after the company announced that it reached an agreement with National Grid plc (National Grid, Baa2 stable) to sell its utility in the UK, WPD plc, and its DNO subsidiaries, for approximately $10.5 billion. PPL plans to use some of the proceeds from the WPD sale to reduce parent company leverage. Separately, PPL agreed to acquire National Grid's Rhode Island utility business, Narragansett Electric Company (NECO, Baa1 RUR), for $3.8 billion. With the divestiture of its UK operations, approximately half of PPL's total rate base will be consisted of higher risk vertically integrated utility operations in Kentucky.

Coronavirus

The rapid spread of the coronavirus outbreak, severe global economic shock, low oil prices and asset price volatility are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

We expect PPLEU to be resilient to these recessionary pressures. About half of PPLEU's rates are transmission based, which is not directly impacted by the decline in customer usage. Also, the impact of the coronavirus on its overall distribution operation has not been significant because the increase in residential sales largely offset the decrease in commercial and industrial customer sales.

Exhibit 1
Historical CFO Pre-WC, Total Debt and CFO Pre-WC to Debt ($ MM)



Source: Moody's Financial Metrics

Credit strengths

» Low business risk profile

» Supportive regulatory frameworks under the PAPUC and FERC

» Transparent and predictable cash flow

Credit challenges

» Steady decline in credit metrics over the last few years

» Material increase in debt levels

» Large capital investment program

Rating outlook

The stable outlook for PPLEU reflects the company's low business risk as an electric transmission and distribution utility in Pennsylvania, where we view the regulatory environment to be credit supportive. The stable outlook also incorporates our view that PPL Electric will continue to produce consistent cash flow and execute a more balanced equity and debt funding for its capital investments than in recent years, producing metrics that are supportive of its current rating.

Factors that could lead to an upgrade

PPLEU's rating could be upgraded if the regulatory environment improves materially and if its financial metrics improve such that its CFO pre-WC to debt ratio rises to above 22% on a sustained basis.

Factors that could lead to a downgrade

A rating downgrade could be considered for PPLEU if there is significant deterioration in the credit supportiveness of the regulatory environment; or if its financial metrics continue to weaken such that CFO pre-WC to debt falls below 18% for an extended period.

Key indicators

Exhibit 2

PPL Electric Utilities Corporation [1]

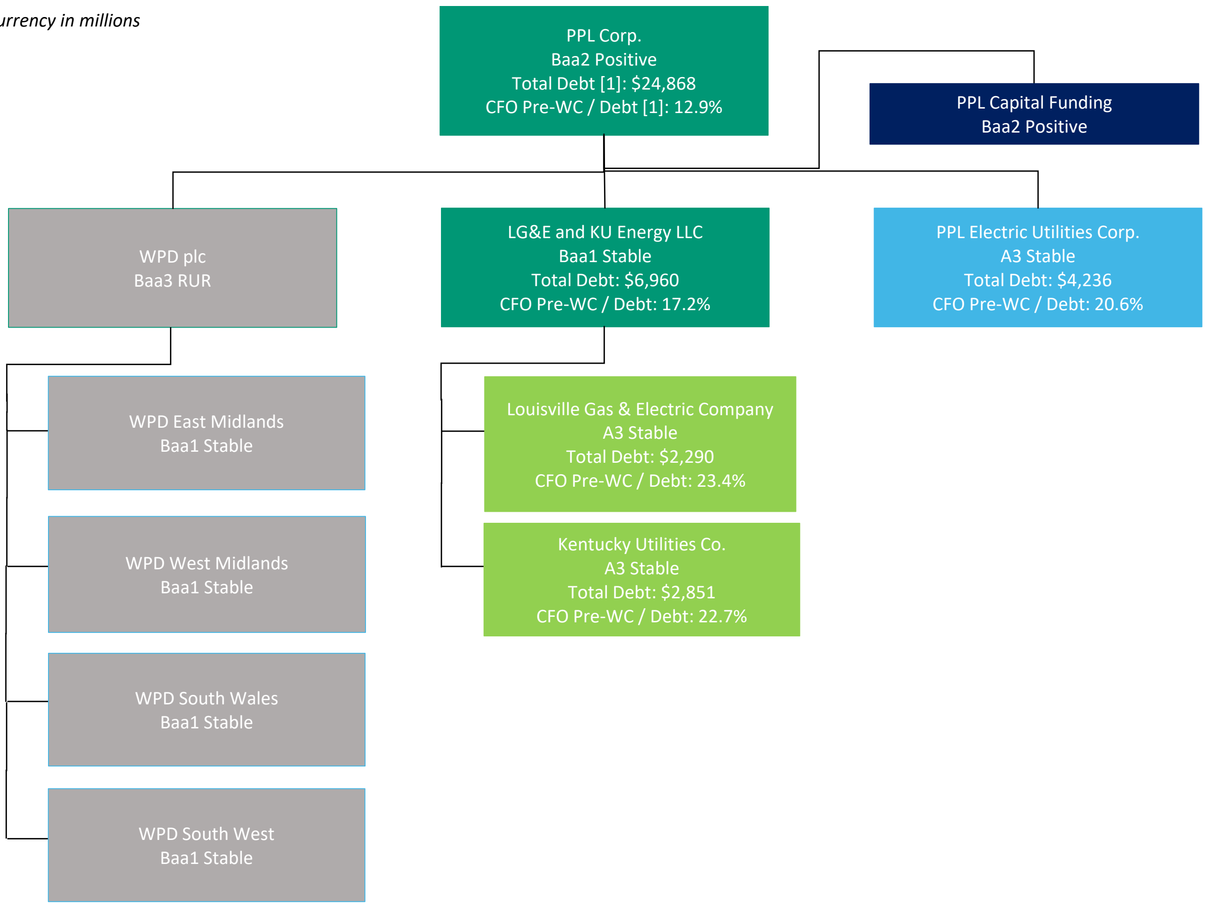
	Dec-17	Dec-18	Dec-19	Dec-20	LTM Mar-21
CFO Pre-W/C + Interest / Interest	5.4x	5.2x	4.5x	4.3x	4.0x
CFO Pre-W/C / Debt	26.7%	23.2%	21.4%	20.6%	18.1%
CFO Pre-W/C – Dividends / Debt	16.7%	12.8%	9.4%	11.1%	10.2%
Debt / Capitalization	39.8%	39.7%	39.6%	39.1%	40.2%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Profile

PPL Electric Utilities (PPLEU) is a wholly-owned regulated utility subsidiary of PPL Corporation (PPL, Baa2 positive) that transmits and distributes electricity to approximately 1.4 million customers in eastern and central Pennsylvania. PPLEU is regulated by the Pennsylvania Public Utilities Commission and by the Federal Energy Regulatory Commission. Like other Pennsylvania transmission and distribution companies (T&D), PPLEU provides electric supply in its service territory as a provider of last resort (POLR). PPL Corporation is a utility holding company with operations in Kentucky, Pennsylvania and the United Kingdom. Once the recently announced transactions are completed, it will be US-only based utility holding company with operations in three states including Rhode Island. Its Kentucky regulated utilities include Louisville Gas & Electric Company (LG&E, A3 stable) and Kentucky Utilities Company (KU, A3 stable), which operate under a traditional vertically integrated utility model.

Exhibit 3
Organizational Structure [2]
As of 31 December 2020
Currency in millions



[1] Total debt and metrics are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] PPL Corp. is divesting WPD plc and its subsidiaries.
Source: Moody's Financial Metrics

Detailed Credit Considerations

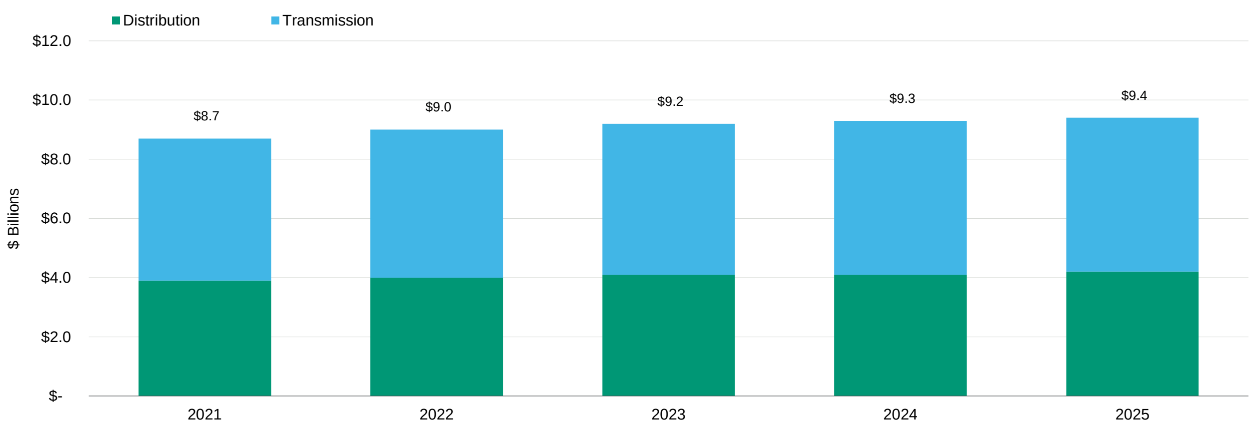
Low risk T&D utility operating in credit supportive regulatory environments

PPLEU is a low risk electric T&D utility in Pennsylvania regulated by the PAPUC and FERC, both with regulatory frameworks that we view as above average compared to other states. In Pennsylvania, the PAPUC allows utilities to use a fully projected future test year in rate proceedings, a credit positive, as it provides companies with the ability to forecast costs and earn a return on investments in a timely manner. PPLEU also utilizes a distribution system improvements charge (DSIC), a smart meter rider and other recovery mechanisms, reducing regulatory lag and providing for the timely recovery of and a return on incurred costs. These mechanisms provide the opportunity for accelerated cost recovery that will help support PPLEU's credit metrics during a period of elevated capital investments.

In 2018, Pennsylvania enacted legislation for alternative ratemaking for electric and water utilities. The legislation includes revenue decoupling, performance-based rate plans, formula rates, multi-year rate plans, and are similar to the ratemaking mechanisms in the UK. While it is unlikely that PPLEU will request any changes to its ratemaking framework until its next general rate case, this legislation authorizing alternative ratemaking mechanisms in Pennsylvania is credit positive for both PPLEU and PPL. It will provide greater transparency and stability to their cash flow and earnings when applied.

We do not anticipate that PPLEU will file its next rate case over the next 12-18 months. PPLEU's last general distribution rate case concluded in November 2015 when a settlement was reached and approved. The settlement authorized a $124 million electric distribution rate increase although it did not specify other factors such as the allowed return on equity (ROE). In February 2020, the PAPUC lowered the ROE for the Distribution System Infrastructure Charge (DSIC) by 10 basis points to 9.45%. Despite the decrease, we continue to view the mechanism to be credit supportive and expect PPLEU to continue to invest under this mechanism.

Exhibit 4
Projected PPLEU Rate Base



Source: Company Data

Relative to other electric utilities, a high percentage of PPLEU's rate base consists of FERC regulated transmission assets. As of year-end 2020, the rate base contribution from transmission was approximately 54% and is expected to grow to about 56% by 2024. We consider FERC regulation to be more predictable and credit supportive due to the formulaic nature of its rate case mechanisms. Based on the formula rate mechanism, PPLEU is currently authorized to earn an 11.68% ROE, including an incentive adder, on its existing transmission assets, while the $650 million Susquehanna-Roseland transmission project is authorized to earn a 12.93% ROE due to incentive based rate treatment.

In May 2020, a complaint was filed with FERC alleging that PPLEU's base transmission ROE of 11.18% is unjust and unreasonable and proposed to reduce the ROE to 8.5%. FERC issued an order on the complaint to establish hearing and settlement procedures, and to set a refund retroactively. After FERC also filed a Notice of Denial of Rehearing, PPLEU filed Petitions for Review with the US Court of Appeals for the D.C. Circuit in February and April 2021. PPLEU is currently under settlement negotiations but the outcome is still uncertain. PPLEU has begun to record a revenue reserve and recorded $19 million after-tax in the first quarter of 2021. A change of 50 basis points (bps) would impact the company's net income by approximately $12 million on an annual basis. Given the size of the transmission rate base, if the ROE agreed in the settlement is lower than anticipated, it could put additional pressure on PPLEU's credit metrics.

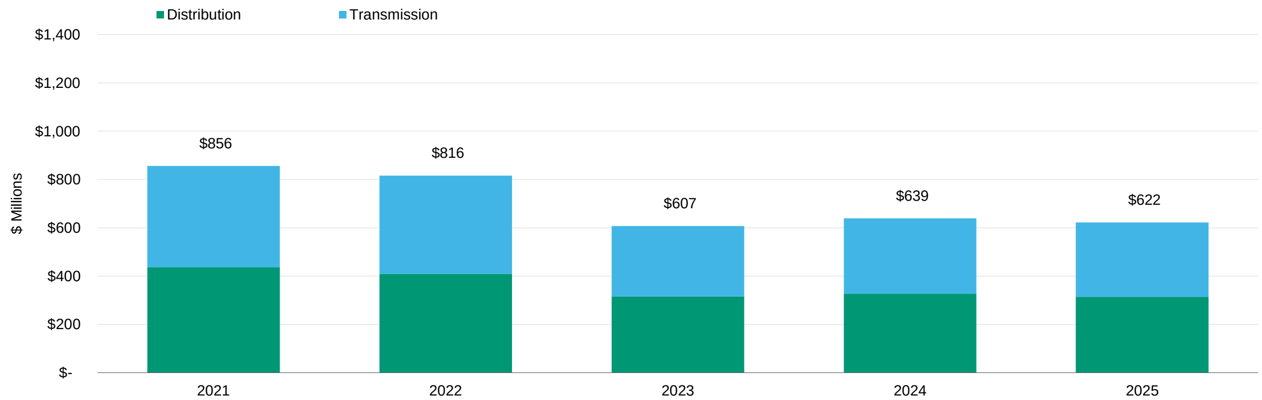
Large capital investments planned in the near-term

PPLEU is currently in the midst of a large capital investment plan and expects to spend approximately $3.5 billion over the next five years. Annual capital expenditures in 2021 are expected to be around $860 million, but will decrease going forward. The total is quite sizeable considering its rate base amounted to around $8.3 billion as of year end 2020. In 2021, the company plans to invest approximately $437 million for distribution and $419 million for transmission.

We view the company's distribution investments (about 51% of total expected spending) as having low construction and execution risk. Moreover, regulatory provisions such as a smart meter rider and the aforementioned DSIC mechanism significantly reduce regulatory lag by allowing PPLEU to earn a return on qualifying investments in less than six months. The company plans to spend about

$1.8 billion of capital investments on distribution facilities over the next five years, with a material portion recoverable under these mechanisms.

Exhibit 5
Projected Capital Investment Plan 2021-2025



Source: Company Reports

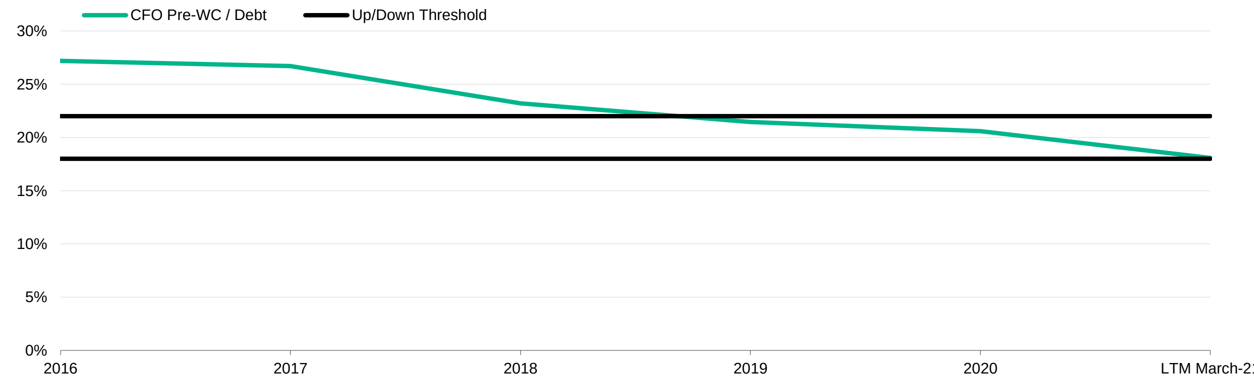
While large transmission projects are more risky from an execution standpoint, we believe that the FERC has an effective regulatory framework for mitigating cost recovery risk. Additionally, PPLEU has a demonstrated track record of effectively managing costs and completing transmission projects on time. Examples of completed transmission lines included the Susquehanna-Roseland project and the Northeast Pocono Reliability Project.

Weakening credit metrics expected to stabilize, despite high capital investments

PPLEU had historically exhibited stronger financial metrics with its CFO pre-WC to debt in the low to mid 20% range. However, metrics have weakened considerably in recent years and we expect that its CFO pre-WC to debt will be between 18% and 20% over the next 12-18 months, leaving less financial flexibility at the current rating level. Furthermore, it is possible that metrics may weaken further due the negative impact of the COVID pandemic. However, we do not expect the impact of COVID to be material because the utility experienced an increase in residential usage while commercial and industrial customer usage declined. In 2020, residential sales generated approximately 78% of PPLEU's total revenue, while commercial and industrial sales contributed the remainder.

PPLEU's financial metrics still position the company appropriately relative to its low business risk peers with similar credit profiles even though they are lower than the historical levels. As of the latest twelve months (LTM) period ending 31 March 2021, CFO pre-WC to debt was 18.1%, while its three year average was 20.8%. The decline in metrics was expected due to elevated capital investments. However, prudent cost recovery mechanisms that are in place should result in timely recovery of investments and should help PPLEU maintain key credit metrics within the appropriate ranges to support its current credit profile.

Exhibit 6
PPLEU's Historical CFO pre-WC to Debt vs Rating Thresholds



The thresholds are one of several factors that could lead to an upgrade or downgrade if CFO pre-WC to debt is sustained above or below these levels.
Source: Moody's Financial Metrics

ESG considerations

Environmental

PPLEU has low carbon transition risk within the regulated utility sector, particularly when compared to vertically integrated electric utilities, mainly due to its lack of generation asset ownership.

Social

Social risks are primarily related to PPLEU's customer and regulatory relations as well as demographic and societal trends. PPLEU's regulatory environment as well as its interaction with the PAPUC and FERC are important in considering the company's social risk. Also, the safety and reliability of its operations are extremely important social considerations. Given recent developments related to the COVID-19 pandemic, there is a possibility of increasing social risk longer term if the affordability of the utility bill and prolonged recessionary impact have a negative impact on PPLEU.

Governance

As a subsidiary of PPL, corporate governance considerations include the financial policy and risk management of its parent company. We note that a stable financial position is an important characteristic for managing environmental and social risks.

Liquidity analysis

We expect PPLEU to maintain an adequate liquidity profile over the next 12-18 months. Although the utility has an elevated capital investment program over the next few years, we anticipate its liquidity will be supported by relatively stable and predictable cash flow and good access to the capital markets.

PPLEU's liquidity is supported by a $650 million syndicated credit facility that expires in January 2024. This credit facility is used primarily as a back-stop for PPLEU's $650 million commercial paper program and to issue letters of credit. As of 31 March 2021, the credit facility had $444 million of available capacity. PPLEU's credit facility contains one financial covenant, a limitation on the ratio of debt to capitalization of 70%, which the company was in compliance with at the end of the first quarter of 2021. The facility does not contain a material adverse change clause for new borrowings.

Over the LTM period ending 31 March 2021, PPLEU generated cash flow from operations of approximately $873 million, spent about $1.1 billion in capital investments and paid $350 million in dividends, resulting in negative free cash flow of approximately $574 million. Due to the high level of planned capital investments, we expect PPLEU to remain in a negative free cash flow position over the next 12-18 months.

PPLEU's next long-term debt maturity is $400 million of senior secured notes due in September 2021.

Parent company PPL is an important source of liquidity for PPLEU. PPL is a major utility holding company with a market capitalization of about $22 billion and, as of 31 March 2021, had consolidated bilateral and syndicated credit facilities totaling $3.2 billion ($1.5 billion of it unused) in the US and $421 million of cash on hand on a consolidated basis.

Rating methodology and scorecard factors

Exhibit 7
Methodology Scorecard Factors
PPL Electric Utilities Corporation

Regulated Electric and Gas Utilities Industry Scorecard [1][2]	Current LTM 3/31/2021		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.5x	Baa	4x - 4.5x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	20.8%	A	18% - 20%	A
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	10.1%	Baa	11% - 13%	Baa
d) Debt / Capitalization (3 Year Avg)	40.2%	A	40% - 42%	A
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		A3		A2
HoldCo Structural Subordination Notching		0		0
a) Scorecard-Indicated Outcome		A3		A2
b) Actual Rating Assigned		A3		A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 3/31/2021(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Appendix

Exhibit 8

Cash Flow and Credit Metrics [1]

CF Metrics	Dec-17	Dec-18	Dec-19	Dec-20	LTM Mar-21
As Adjusted					
FFO	**892**	**875**	**861**	**911**	**883**
+/- Other	0	-7	5	-39	-80
CFO Pre-WC	**892**	**868**	**866**	**872**	**803**
+/- ΔWC	-74	60	-30	-80	-22
CFO	**818**	**928**	**836**	**792**	**781**
- Div	336	390	486	400	350
- Capex	1,192	1,146	1,044	1,062	1,005
FCF	**-710**	**-608**	**-694**	**-670**	**-574**
(CFO Pre-W/C) / Debt	26.7%	23.2%	21.4%	20.6%	18.1%
(CFO Pre-W/C - Dividends) / Debt	16.7%	12.8%	9.4%	11.1%	10.2%
FFO / Debt	26.7%	23.4%	21.3%	21.5%	19.9%
RCF / Debt	16.7%	13.0%	9.3%	12.1%	12.0%
Revenue	2,195	2,277	2,358	2,331	2,328
Interest Expense	204	209	247	265	264
Net Income	323	392	399	428	423
Total Assets	10,020	11,193	11,824	12,232	12,462
Total Liabilities	6,108	6,815	7,104	7,177	7,409
Total Equity	3,912	4,378	4,720	5,055	5,053

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months
Source: Moody's Financial Metrics

Exhibit 9

Peer Comparison Table [1]

	PPL Electric Utilities Corporation A3 (Stable)			Public Service Electric and Gas Company A2 (Negative)			Consolidated Edison Company of New York, Inc. Baa1 (Stable)			Virginia Electric and Power Company A2 (Stable)			Niagara Mohawk Power Corporation A3 (Negative)		
(In US millions)	FYE Dec-19	FYE Dec-20	LTM Mar-21	FYE Dec-19	FYE Dec-20	LTM Mar-21	FYE Dec-19	FYE Dec-20	LTM Mar-21	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Mar-18	FYE Mar-19	FYE Mar-20
Revenue	2,358	2,331	2,328	6,625	6,608	6,798	10,821	10,647	10,998	7,619	8,108	7,763	3,040	3,412	3,147
CFO Pre-W/C	866	872	803	1,868	1,847	1,884	2,481	2,274	2,322	3,198	2,927	2,960	615	620	603
Total Debt	4,039	4,236	4,442	10,876	11,728	12,221	17,817	20,710	20,482	13,697	14,034	15,022	2,991	3,567	3,434
CFO Pre-W/C + Interest / Interest	4.5x	4.3x	4.0x	5.7x	5.3x	5.4x	4.2x	3.9x	3.9x	6.1x	5.8x	5.8x	5.0x	4.6x	4.8x
CFO Pre-W/C / Debt	21.4%	20.6%	18.1%	17.2%	15.8%	15.4%	13.9%	11.0%	11.3%	23.3%	20.9%	19.7%	20.6%	17.4%	17.6%
CFO Pre-W/C – Dividends / Debt	9.4%	11.1%	10.2%	14.9%	14.3%	15.4%	8.8%	6.2%	6.5%	20.0%	19.5%	16.8%	2.2%	17.4%	17.5%
Debt / Capitalization	39.6%	39.1%	40.2%	40.5%	40.0%	40.2%	47.1%	49.3%	48.5%	46.2%	45.5%	46.5%	35.7%	38.3%	36.0%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = forupgrade and DNG = for downgrade.
Source: Moody's Financial Metrics

Ratings

Exhibit 10

Category	Moody's Rating
PPL ELECTRIC UTILITIES CORPORATION	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Commercial Paper	P-2
PARENT: PPL CORPORATION	
Outlook	Positive
Issuer Rating	Baa2

Source: Moody's Investors Service

REPORT NUMBER 1283935

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S INVESTORS SERVICE

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
23 October 2020

Update

Rate this Research

RATINGS

Kentucky Utilities Co.

Domicile	Lexington, Kentucky, United States
Long Term Rating	A3
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Kentucky Utilities Co.

Update to credit analysis

Summary

Kentucky Utilities' (KU) credit strengths include its supportive regulatory environments in the states of Kentucky and Virginia. Historically, KU has produced relatively consistent credit metrics due to stable utility operations, and represents approximately 22% of the cash flow of its ultimate parent company, PPL Corporation (PPL). Going forward, we believe that KU's large capital investment plan will pressure the ratio of cash flow from operations before changes in working capital (CFO pre-WC) to debt to the 22% to 24% range, which is weaker than its historical level. To a lesser extent, KU's positive credit factors are also somewhat offset by a lack of fuel and geographic diversity.

The supportive regulatory environments of Kentucky and Virginia have a transparent recovery framework. The regulatory commissions have allowed KU various tracker mechanisms, providing timely cost recovery, and KU has been active in its general rate case filings over the last two years. In July 2019, KU filed for an electric rate case in Virginia, requesting a $13 million rate increase. The Virginia State Corporation Commission (SCC) authorized a $9 million rate increase in April 2020. Its last rate case in Virginia concluded in May 2018.

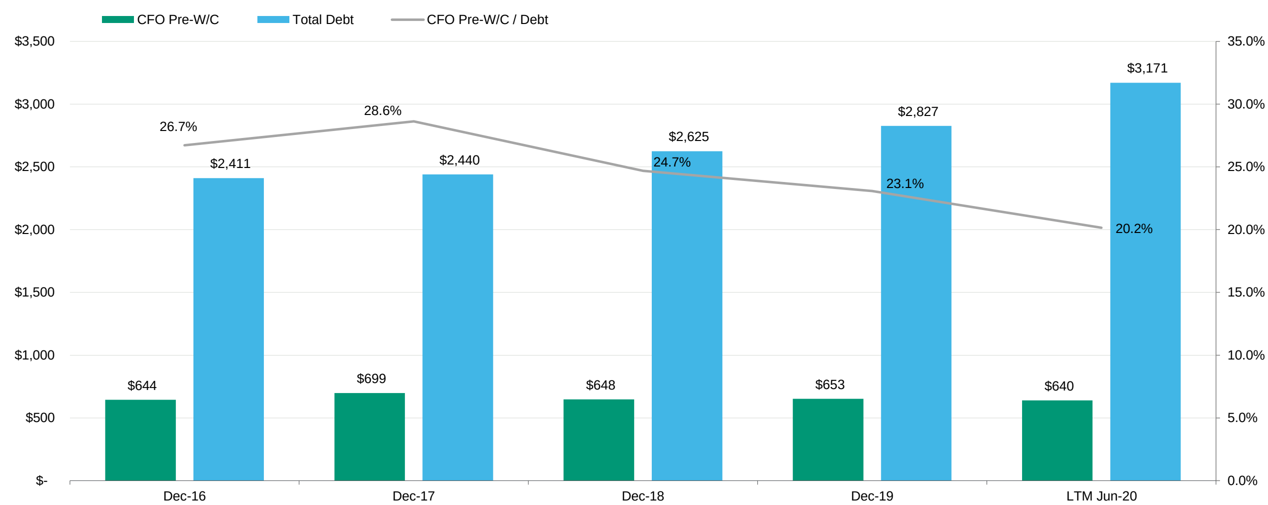
Recent developments

In August 2020, PPL, KU's parent company, announced that it had initiated a process to sell its utility assets in the United Kingdom that have a total estimated rate base of around $10 billion and approximately $8 billion of debt. If PPL is successful in divesting its UK assets, we estimate its Kentucky operations will proportionally increase to more than half of rate base from around 37%. Due to their vertically integrated utility business models with coal as the primary fuel source for its generation in Kentucky, we would view PPL's overall business risk to be higher.

The rapid spread of the coronavirus outbreak, severe global economic shock and asset price volatility are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

We expect KU to be relatively resilient to recessionary pressures related to the coronavirus because of its rate regulated business model and timely cost recovery mechanisms. Nevertheless, we are watching for electricity usage declines, utility bill payment delinquency, and the regulatory response to counter these effects on earnings and cash flow. As events related to the coronavirus continue, we are taking into consideration a wider range of potential outcomes, including more severe downside scenarios. The effects of the pandemic could result in financial metrics that are weaker than expected; however, we see these issues as temporary and not reflective of the long-term financial profile or credit quality of KU.

Exhibit 1
Historical CFO Pre-WC, Total Debt and CFO Pre-WC to Debt ($ MM)



Source: Moody's Financial Metrics

Credit strengths

» Supportive regulatory frameworks in Kentucky and Virginia

» Overall stable profile with transparent and predictable cash flows

Credit challenges

» Slightly pressured credit metrics due to large capital investment program

» High coal concentration in its generation fuel mix

» Elevated carbon transition risk relative to its peers

Rating outlook

KU's stable outlook reflects our expectation that the regulatory environments in Kentucky and Virginia will remain consistent and supportive. The stable outlook also incorporates our view that KU will continue to generate stable cash flow and adequate financial metrics while it executes a large capital investment program.

Factors that could lead to an upgrade

KU's rating could be upgraded if its financial metrics increase, including CFO pre-WC to debt at or above 26% on a sustained basis. An upgrade is also possible if KU's regulatory environment materially improves, providing more favorable regulatory recovery mechanisms. However, it is unlikely that KU's rating will be upgraded while the company is in the midst of a large capital investment program.

Factors that could lead to a downgrade

KU's ratings could be downgraded if there is a significant deterioration in the credit supportiveness of the regulatory environments. Additionally, KU's rating could be downgraded if its financial metrics weaken, such that CFO pre-WC to debt declines below 20% for an extended period of time.

Key indicators

Exhibit 2

Kentucky Utilities Co. [1]

	Dec-16	Dec-17	Dec-18	Dec-19	LTM Jun-20
CFO Pre-W/C + Interest / Interest	7.6x	8.2x	7.4x	6.9x	6.6x
CFO Pre-W/C / Debt	26.7%	28.6%	24.7%	23.1%	20.2%
CFO Pre-W/C – Dividends / Debt	16.4%	19.4%	15.3%	15.0%	13.0%
Debt / Capitalization	35.0%	37.7%	38.7%	39.4%	41.6%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Financial Metrics™
Source: Moody's Financial Metrics

Profile

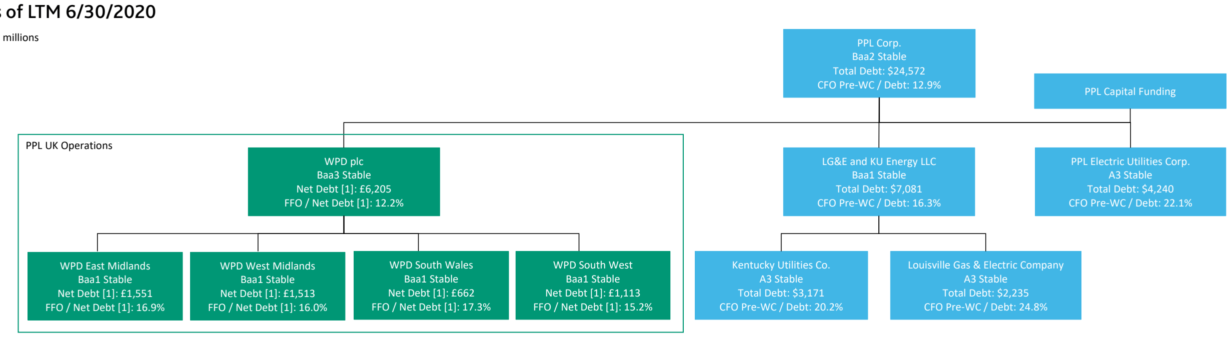
Kentucky Utilities (KU) is a wholly owned regulated public utility subsidiary of LG&E and KU Energy LLC (LKE, Baa1 stable) that is engaged in the generation, transmission and distribution of electricity. KU provides electric service to approximately 530,000 customers in 77 counties of Kentucky and 28,000 customers in five counties of Virginia. KU is regulated by the Kentucky Public Service Commission (KPSC) and the Virginia State Corporate Commission (VSCC).

KU and its affiliate, Louisville Gas and Electric Company (LG&E, A3 stable), are the two main operating entities of LKE. LKE is wholly owned by PPL Corporation (PPL, Baa2 stable), a diversified utility holding company headquartered in Allentown, PA.

Exhibit 3

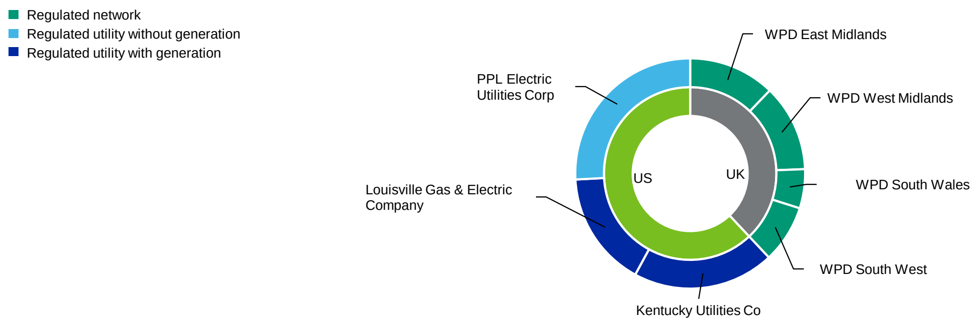
Organizational structure
As of LTM 6/30/2020

$ in millions



[1] As of 3/31/2020; CFO Pre-WC to Debt is not a key metric we use for WPD and subsidiaries. WPD and subsidiaries are assessed under the Regulated Electric and Gas Networks Industry Grid.
[2] Metrics are based on 'adjusted' financial data and incorporate Moody's Global Standard Adjustments for non-financial corporations.
Source: Moody's Financial Metrics

Exhibit 4
PPL's rate base breakdown between the US and UK jurisdictions



Source: Company Reports

Detailed credit considerations

Supportive regulatory environments in Kentucky and Virginia

We view the regulatory frameworks provided by Kentucky, where it has most of its operations, and Virginia to be supportive. The KPSC has approved various tracker mechanisms that provide timely recovery of costs outside of a general rate case. Some of the authorized tracker mechanisms include a Fuel Adjustment Clause (FAC), an Environmental Cost Recovery Surcharge (ECR), and a Demand-Side Management (DSM) Cost Recovery Mechanism. The Kentucky operating utilities do not have decoupling mechanisms in place, which subjects KU's revenue to some volatility. However, the impact of non-weather related demand fluctuations on its revenue is minimized because of the DSM mechanism.

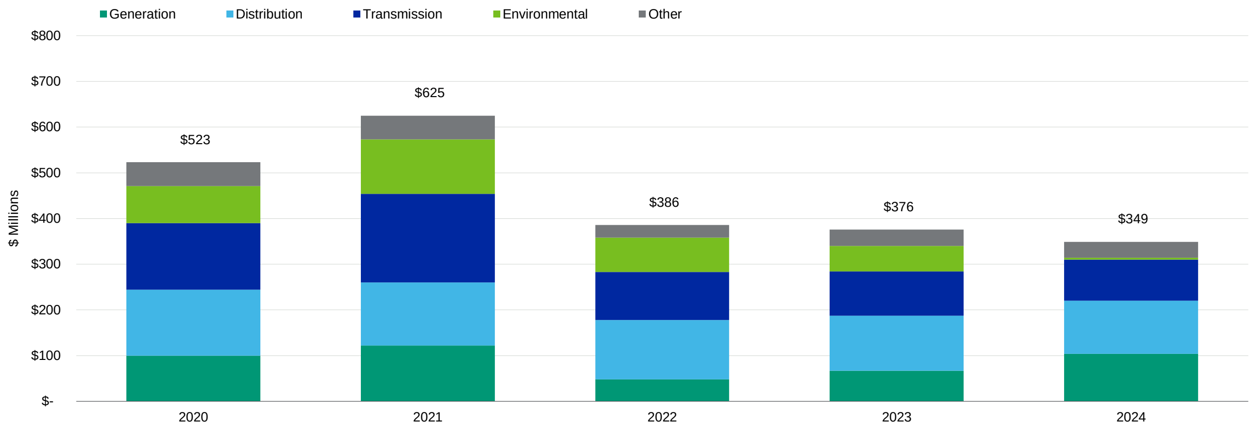
KU's latest electric rate case in Kentucky concluded in April 2019 when a settlement was reached and approved. The settlement authorized a $56 million revenue increase compared to the initial $112 million increase requested in September 2018. The revenue increase was based on a 9.725% return on equity (ROE) versus the initial request of 10.42%. Also, the KPSC approved the termination of the Tax Cuts and Jobs Act (TCJA) bill credit mechanism, which was used to reduce both electric rates to reflect the impact of the tax reform. With the new rates from the latest rate case implemented, the termination was implemented. This represented a total annual revenue increase of $114 million for KU, effective as of May 2019.

In July 2019, KU filed for an electric rate case in Virginia where it has a smaller operation. The company requested a revenue increase of approximately $13 million based on an allowed ROE of 10.5% and an equity layer of 54.04%. In April 2020, the VSCC authorized a rate increase of $9 million as a result of an approved settlement. The settlement did not specify the allowed ROE and equity layer. Although the specifics of the settlement were not disclosed, the parties involved agreed that a ROE range of 9%-10% was reasonable.

Large capital investment plan in the near-term

KU is currently in the midst of a large capital investment plan and expects to spend approximately $2.3 billion, including capital expenditure under cost recovery mechanisms, over the next five years. Approximately $632 million will be spent on transmission facilities, $648 million on distribution facilities, $335 million on environmental, $441 million on generating facilities, and $203 million on other expenses. The total projected capital investment represents about 32% of KU's net book value of property, plant and equipment, which was about $7.3 billion at the end of 2019.

Exhibit 5
Projected Capital Investment Plan



Source: Company Reports

We expect regulatory lag related to KU's capital investments to be somewhat moderated by Kentucky's supportive regulatory environment, especially regarding environmental investments through the ECR. The KPSC is also authorized to grant a return on construction work in progress (CWIP) in rate case proceedings, a credit positive. Moreover, the ECR minimizes regulatory lag for investments associated with the coal combustion waste. The terms of the ECR allow KU to receive a return on and of investments two months after the capital is deployed. We view this to be credit supportive compared to the traditional ratemaking process where there would be longer regulatory lag due to the length of the construction period and subsequent rate case proceedings.

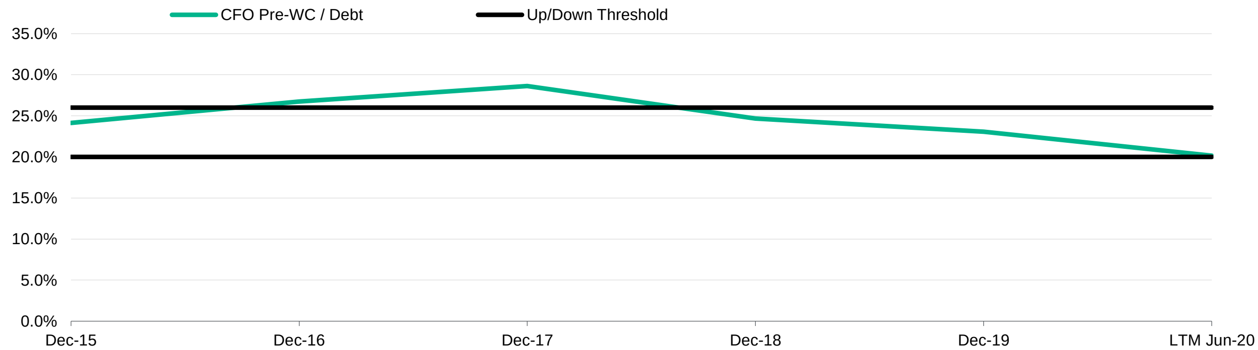
Adequate overall financial profile, but credit metrics slightly pressured

Historically, KU has maintained a strong financial profile with its ratio of CFO pre-WC to debt in the mid to high 20% range. However, we expect metrics to slightly weaken to the low to mid 20% range over the next 12-18 months. Furthermore, it is possible that metrics may weaken further due the negative impact of the COVID pandemic. However, we do not expect the impact to be material because the utility experienced an increase in residential usage while commercial and industrial customer usage declined. In 2019, residential sales generated approximately 40% of KU's total revenue while commercial and industrial sales contributed the remainder.

KU's metrics are currently and will remain appropriately positioned its credit profile. As of the last twelve month (LTM) period ending 30 June 2020, CFO pre-WC to debt was 20.2%, or 23.7% on average for the past three years. KU's debt level in the first half of 2020 was higher due to the early refinancing of a 2020 maturity. In June 2020, KU issued $500 million of first mortgage bonds in advance to fund its $500 million first mortgage bond maturing in November 2020. The series that was to mature in November was redeemed at par in August 2020.

We expect KU's metrics to be pressured due to elevated capital investments over the next 18 - 24 months. However, prudent cost recovery mechanisms that are in place should result in timely recovery of investments and should help KU maintain key credit metrics within the adequate ranges. Also, capital contributions received from LKE of approximately $37 million as of LTM 30 June 2020 has modestly helped mitigate the pressure on its cash flow.

Exhibit 6
KU's Historical CFO pre-WC to Debt vs Financial Metric Upgrade/Downgrade Thresholds



The financial metric threshold indicated are one of several factors that could result in an upgrade or downgrade of the ratings if they are above or below that level for a sustained period.
Source: Moody's Financial Metrics

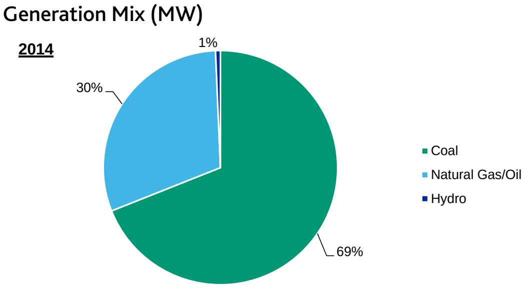
ESG considerations

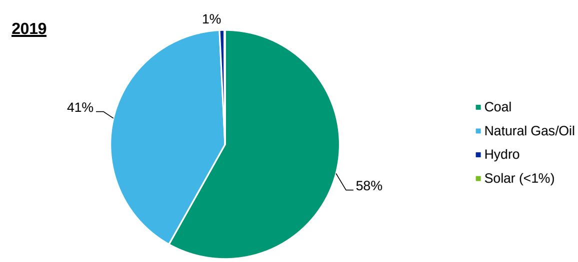
Environmental

KU has elevated carbon transition risk within the US regulated utility sector because it is a vertically integrated utility that has a large, fossil based generation capacity. Kentucky's political and regulatory environment is supportive of coal mining and related industries. KU has a total generation capacity of 4.8 GW, and 2.8 GW (58%) is coal-fired, which provides the majority (73%) of the electricity generation output. The remaining 27% of the generating capacity is comprised mainly of gas/oil-fired, hydro, and solar facilities. KU's generation fuel mix became more diversified when a new gas-fired power plant, the 660 MW Cane Run 7 plant, became operational in June 2015. It replaced three older coal-fired plants which had a combined generating capacity of 797 MW. Due to environmental requirements and energy efficiency measures, KU retired two older coal units at the E.W Brown plant in the first quarter of 2019 with a combined capacity of 272 MW.

KU and LG&E received approval from the KPSC to develop a 4 MW solar facility to service a solar share program. The solar share program is a voluntary program that allows customers to subscribe capacity in the solar share facility. In January 2020, KU and LG&E requested approval from the KSPC for the purchase of 100 MW of solar power in connection with the green tariff option established in the most recent Kentucky rate cases. KSPC has approved the solar contract subject to changes. LG&E and KU will purchase the initial 20 years of output of a proposed third-party solar generation facility and resell the majority of the power as renewable energy to two large industrial customers and use the remaining power for other customers.

Exhibit 7
KU Generation Mix (MW)





Source: Company reports

Fuel concentration in coal is typically considered to be a significant credit negative. However, we do not view KU's high reliance on coal to be as negative as some other companies because the state of Kentucky is very supportive of the coal industry. This support is evidenced by the ECR, which provides the company with credit supportive terms for its investments in coal-related environmental expenditures. However, KU is exposed to the risk of potentially needing to make a more rapid transition to clean energy in the future if carbon policies change.

PPL has enhanced transparency and disclosure, especially related to its environmental risks, over the last three years. PPL has published a 2019 sustainability report and has also set a more aggressive carbon reduction goal of at least 80% from 2010 levels by 2050 and has accelerated its previous 70% goal by 10 years to 2040. It also reiterated the assessment outcome for considering a two-degree scenario analysis based on the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD). Under these carbon regulation policy scenarios, PPL's analysis indicated that the CO2 emissions from the company's Kentucky utilities' generation assets would be reduced 45-90% from 2005 levels by 2050.

Social

Social risks are primarily related to KU's customer and regulatory relations as well as demographic and societal trends. KU's regulatory environment as well as its interaction with the KPSC and SCC are important in considering the company's social risk. Also, the safety and reliability of its operations are extremely important social considerations. Given recent developments related to the COVID-19 pandemic, there is a possibility of increasing social risk longer term as the affordability of the utility bill and prolonged recessionary impact have a negative impact on KU.

Governance

As a subsidiary of PPL, corporate governance considerations include the financial policy and risk management of its parent company. We note that a stable financial position is an important characteristic for managing environmental and social risks.

Liquidity analysis

We expect KU to maintain an adequate liquidity profile over the next 12-18 months. Although the utility has an elevated capital investment program over the next few years, we anticipate its liquidity will be supported by relatively stable and predictable cash flow and good access to capital markets.

KU's liquidity is supported by a $400 million syndicated credit facility that expires in January 2024. As of 30 June 2020, the credit facility had $400 million of available capacity. KU's credit facility contains one financial covenant, a limitation on the ratio of debt to capitalization of 70%, which the company was in compliance with at the end of the second quarter of 2020. The facility does not contain a material adverse change clause.

Over the LTM period ending 30 June 2020, KU generated cash flow from operations of approximately $640 million, spent about $581 million in capital investments and paid $227 million in dividends, resulting in a negative free cash flow of approximately $168 million. The shortfall was partially financed with equity contributions from the parent. Due to the high level of planned capital investments, we expect KU to remain in a negative free cash flow position over the next 12-18 months.

KU's next long-term debt puts are $132 million of revenue bonds with a mandatory purchase in June 2021.

LG&E and KU Energy (LKE), the intermediate parent company of KU, manages the liquidity of its two subsidiaries on a consolidated basis, although each utility has a separate credit facility. LG&E has a separate $500 million syndicated credit facility maturing in January 2024. As of 30 June 2020, LG&E had $500 million available. LG&E's facility contains a financial covenant requiring that the companies' debt to total capitalization not exceed 70%. All entities were in compliance as of 30 June 2020.

Rating methodology and scorecard factors

Exhibit 8
Rating Factors
Kentucky Utilities Co.

Regulated Electric and Gas Utilities Industry Scorecard [1][2]	Current LTM 6/30/2020		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	7.2x	Aa	6.5x - 7x	Aa
b) CFO pre-WC / Debt (3 Year Avg)	23.7%	A	22% - 24%	A
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	15.6%	Baa	12% - 16%	Baa
d) Debt / Capitalization (3 Year Avg)	39.5%	A	37% - 40%	A
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching		0		0
a) Scorecard-Indicated Outcome		A3		A3
b) Actual Rating Assigned		A3		A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 06/30/2020 (L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics

Appendix

Exhibit 9

Cash Flow and Credit Metrics [1]

CF Metrics	Dec-16	Dec-17	Dec-18	Dec-19	LTM Jun-20
As Adjusted					
FFO	**652**	**687**	**622**	**665**	**652**
+/- Other	(8)	12	26	(12)	(12)
CFO Pre-WC	**644**	**699**	**648**	**653**	**640**
+/- ΔWC	(1)	(13)	47	(26)	-
CFO	**643**	**686**	**695**	**627**	**640**
- Div	248	226	246	229	227
- Capex	359	442	572	622	581
FCF	**36**	**18**	**(123)**	**(224)**	**(168)**
(CFO Pre-W/C) / Debt	26.7%	28.6%	24.7%	23.1%	20.2%
(CFO Pre-W/C - Dividends) / Debt	16.4%	19.4%	15.3%	15.0%	13.0%
FFO / Debt	27.1%	28.1%	23.7%	23.5%	20.6%
RCF / Debt	16.8%	18.9%	14.3%	15.4%	13.4%
Revenue	1,749	1,744	1,760	1,740	1,704
Cost of Good Sold	945	928	967	892	848
Interest Expense	98	97	102	110	113
Net Income	265	259	286	293	284
Total Assets	8,129	8,298	8,588	8,825	9,243
Total Liabilities	4,830	4,964	5,167	5,270	5,607
Total Equity	3,299	3,334	3,421	3,555	3,636

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months
Source: Moody's Financial Metrics

Exhibit 10

Peer Comparison Table [1]

	Kentucky Utilities Co. A3 Stable			Kentucky Power Company Baa3 Stable			Black Hills Power, Inc. A3 Stable			Empire District Electric Company (The) Baa1 Stable		
(in US millions)	FYE Dec-18	FYE Dec-19	LTM Jun-20	FYE Dec-18	FYE Dec-19	LTM Jun-20	FYE Dec-18	FYE Dec-19	LTM Jun-20	FYE Dec-18	FYE Dec-19	LTM Jun-20
Revenue	1,760	1,740	1,704	642	619	579	298	291	277	698	644	602
CFO Pre-W/C	648	653	640	95	93	97	95	89	88	265	211	209
Total Debt	2,625	2,827	3,171	951	1,037	1,088	398	447	483	912	898	898
CFO Pre-W/C / Debt	24.7%	23.1%	20.2%	10.0%	8.9%	8.9%	23.9%	19.9%	18.1%	29.0%	23.5%	23.3%
CFO Pre-W/C – Dividends / Debt	15.3%	15.0%	13.0%	10.0%	8.4%	8.9%	14.9%	19.9%	14.0%	18.6%	20.2%	21.6%
Debt / Capitalization	38.7%	39.4%	41.6%	45.6%	46.4%	47.0%	43.6%	44.4%	46.2%	44.9%	42.8%	42.5%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade
Source: Moody's Financial Metrics

Ratings

Exhibit 11

Category	Moody's Rating
KENTUCKY UTILITIES CO.	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Bkd LT IRB/PC	A1
Commercial Paper	P-2
Bkd Other Short Term	P-2
ULT PARENT: PPL CORPORATION	
Outlook	Stable
Issuer Rating	Baa2
PARENT: LG&E AND KU ENERGY LLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1

Source: Moody's Investors Service

REPORT NUMBER 1250151

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S INVESTORS SERVICE

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
23 October 2020

Update

Rate this Research

RATINGS

Louisville Gas & Electric Company

Domicile	Louisville, Kentucky, United States
Long Term Rating	A3
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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CLIENT SERVICES

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Asia Pacific	852-3551-3077
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EMEA	44-20-7772-5454

Louisville Gas & Electric Company

Update to credit analysis

Summary

Louisville Gas & Electric Company's (LG&E) credit strengths include its supportive regulatory environment in the state of Kentucky. Historically, LG&E has produced relatively consistent credit metrics due to its stable utility operations, and it represents approximately 19% of the cash flow to its ultimate parent company, PPL Corporation (PPL). Going forward, we believe LG&E's large capital investment plan may pressure its ratio of cash flow from operations before changes in working capital (CFO pre-WC) to debt to the 23% to 25% range, which is slightly weaker than its historical level. To a lesser extent, LG&E's positive credit factors are also somewhat offset by a lack of fuel and geographic diversity.

The regulatory environment of Kentucky has a transparent recovery framework. LG&E has various tracker mechanisms allowed by the Kentucky Public Service Commission (KPSC), providing timely recovery of some of the company's investment costs. LG&E's latest rate case concluded in April 2019 when a settlement was approved by the commission, resulting in an aggregate revenue increase of approximately $21 million and with a $52 million credit from the elimination of the Tax Cuts and Jobs Act (TCJA) it will be an annual increase of $73 million. The settlement was based on a return on equity of 9.725%.

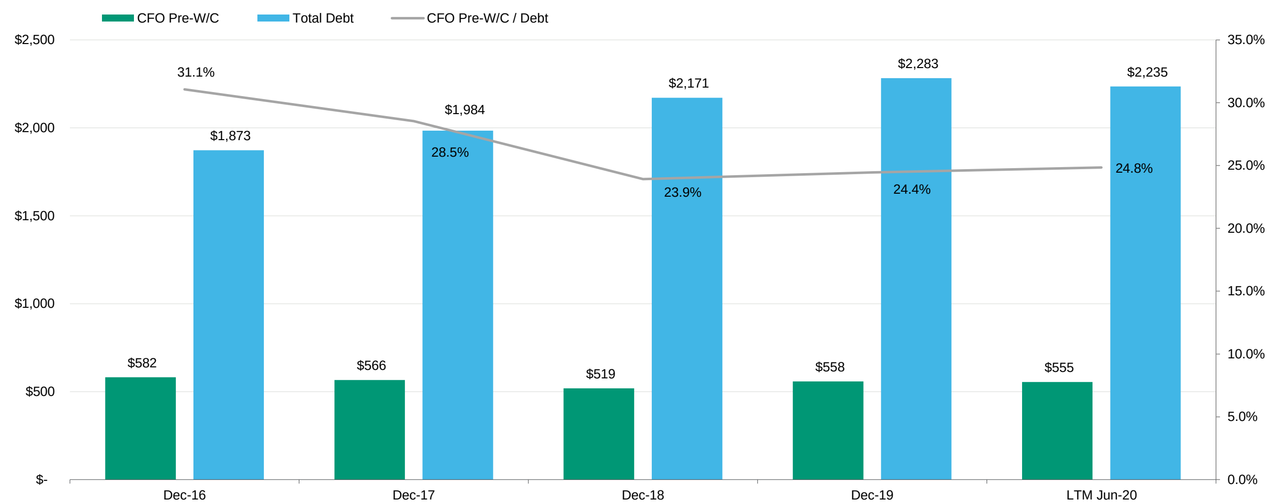
Recent developments

In August 2020, PPL announced that it had initiated a process to sell its utility assets in the United Kingdom that have a total estimated rate base of around $10 billion and approximately $8 billion of debt. If PPL is successful in divesting its UK assets, we estimate its Kentucky operations will proportionally increase to more than half of its rate base from around 37%. Due to their vertically integrated utility business models, with coal as the primary fuel source for its generation in Kentucky, we would view PPL's overall business risk to be higher.

The rapid spread of the coronavirus outbreak, severe global economic shock and asset price volatility are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

We expect LG&E to be relatively resilient to recessionary pressures related to the coronavirus because of its rate regulated business model and timely cost recovery mechanisms. Nevertheless, we are watching for electricity usage declines, utility bill payment delinquency, and the regulatory response to counter these effects on earnings and cash flow. As events related to the coronavirus continue, we are taking into consideration a wider range of potential outcomes, including more severe downside scenarios. The effects of the pandemic could result in financial metrics that are weaker than expected; however, we see these issues as temporary and not reflective of the long-term financial profile or credit quality of LG&E.

Exhibit 1
Historical CFO Pre-WC, Total Debt and CFO Pre-WC to Debt ($MM)



Source: Moody's Financial Metrics

Credit strengths

» Supportive regulatory framework in Kentucky

» Stable financial profile with transparent and predictable cash flow

Credit challenges

» Slightly pressured credit metrics due to large capital investment program

» High coal concentration in its generation fuel mix

» Elevated carbon transition risk

Rating outlook

LG&E's stable outlook reflects our expectation that the regulatory environment in Kentucky will remain consistent and supportive. The stable outlook also incorporates our view that LG&E will continue to generate stable cash flow and adequate financial metrics while it executes a large capital investment program.

Factors that could lead to an upgrade

LG&E's rating could be upgraded if its financial metrics increase, including CFO pre-WC to debt at or above 26% on a sustained basis. An upgrade is also possible if LG&E's regulatory environment materially improves and provides more favorable regulatory recovery mechanisms. However, it is unlikely that LG&E's rating will be upgraded while the company is in the midst of a large capital investment program and faces a slight negative impact in cash flow due to tax reform.

Factors that could lead to a downgrade

LG&E's rating could be downgraded if there is a significant deterioration in the credit supportiveness of the regulatory environment. Additionally, the rating could be downgraded if its financial metrics deteriorate, such that CFO pre-WC to debt declines below 20% for an extended period of time.

Key indicators

Exhibit 2
Louisville Gas & Electric Company [1]

	Dec-16	Dec-17	Dec-18	Dec-19	LTM Jun-20
CFO Pre-W/C + Interest / Interest	8.9x	8.7x	7.6x	7.3x	7.3x
CFO Pre-W/C / Debt	31.1%	28.5%	23.9%	24.4%	24.8%
CFO Pre-W/C – Dividends / Debt	24.2%	18.9%	16.7%	16.5%	16.5%
Debt / Capitalization	35.3%	39.1%	39.7%	39.9%	38.7%

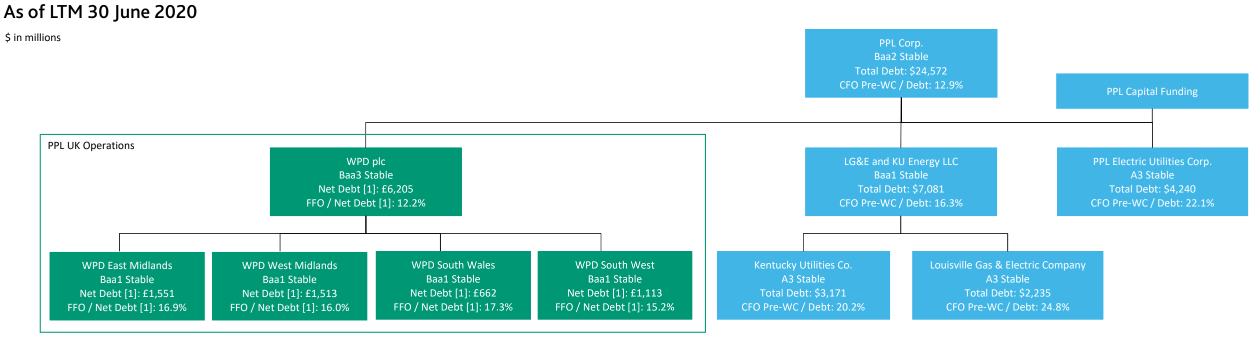
[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Profile

Louisville Gas and Electric Company (LG&E) is a wholly owned regulated public utility subsidiary of LG&E and KU Energy LLC (LKE, Baa1 stable) that is engaged in the generation, transmission and distribution of electricity and the storage, distribution and sale of natural gas in Kentucky. LG&E provides electric service to approximately 418,000 customers in Louisville and delivers natural gas service to approximately 329,000 customers in its electric service area and eight additional counties in Kentucky. LG&E is regulated by the Kentucky Public Service Commission.

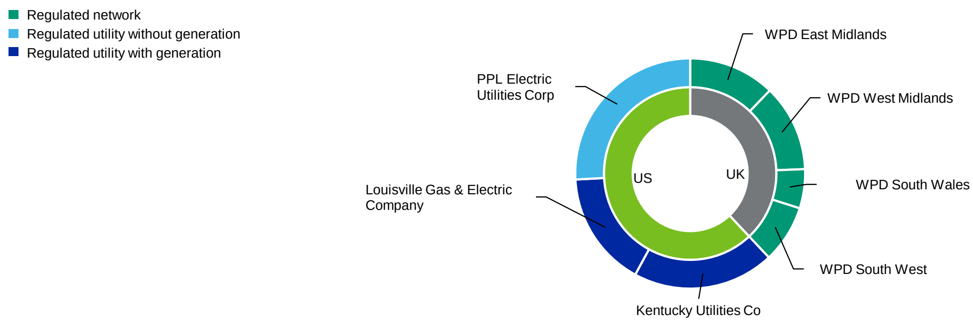
LG&E and its affiliate, Kentucky Utilities Company (KU, A3 stable), are the two main operating entities of LKE. LKE is wholly owned by PPL Corporation (PPL, Baa2 stable), a diversified utility holding company headquartered in Allentown, PA.

Exhibit 3
Organizational Structure
As of LTM 30 June 2020



[1] As of 3/31/2020; CFO Pre-WC to Debt is not a key metric we use for WPD and subsidiaries. WPD and subsidiaries are assessed under the Regulated Electric and Gas Networks Industry Grid.
[2] Metrics are based on 'adjusted' financial data and incorporate Moody's Global Standard Adjustments for non-financial corporations.
Source: Moody's Financial Metrics

Exhibit 4
PPL's rate base breakdown between the US and UK jurisdictions



Source: Company Reports

Detailed credit considerations

Supportive regulatory environment in Kentucky

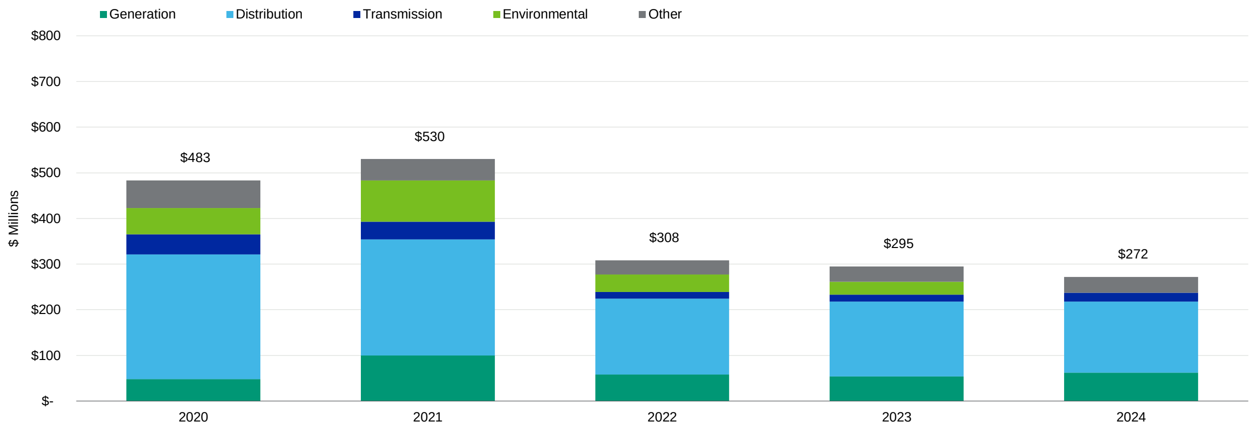
We view the regulatory framework provided by Kentucky to be supportive. The KPSC has approved various tracker mechanisms that provide timely recovery of costs outside of a general rate case. Some of these authorized tracker mechanisms include a Fuel Adjustment Clause (FAC), an Environmental Cost Recovery Surcharge (ECR), a Gas Supply Clause (GSC), a Gas Line Tracker (GLT), and a Demand-Side Management (DSM) Cost Recovery Mechanism. The Kentucky operating utilities do not have decoupling mechanisms in place, which subjects LG&E's revenue to some volatility. However, the impact of non-weather related demand fluctuations on its revenue is minimized because of the DSM mechanism.

LG&E's latest general rate case concluded in April 2019. LG&E had requested a $35 million electric rate increase and a $25 million gas rate increase based on a 10.42% return on equity (ROE) and equity layer of 52.84%. The settlement approved by the KPSC resulted in a total revenue increase of about $21 million based on a 9.725% ROE. Also, the KPSC approved the termination of the Tax Cuts and Jobs Act (TCJA) bill credit mechanism, which was used to reduce both electric and gas rates to reflect the impact of tax reform. With the new rates from the latest rate case implemented, the termination was implemented. This represented a total annual revenue increase of $73 million for LG&E, effective as of May 2019.

Large capital investment plan in the near-term

LG&E is currently in the midst of a large capital investment plan and expects to spend approximately $1.9 billion over the next five years including the investment that would be recovered under mechanism. Approximately $1.0 billion will be spent on distribution facilities, $322 million on generating facilities, $214 million on environmental, $132 million on transmission facilities, and $207 million on other expenses. The total projected capital investment represents about 33% of LG&E's net book value of property, plant and equipment, which was about $5.8 billion at the end of 2019.

Exhibit 5
Projected Capital Investment Plan



Source: Company Reports

We expect regulatory lag related to this capital investment plan to be somewhat moderated by Kentucky's supportive regulatory environment, especially regarding environmental investments through the ECR. The KPSC is also authorized to grant a return on construction work in progress (CWIP) in rate case proceedings, a credit positive. Moreover, the ECR minimizes regulatory lag for investments associated with coal combustion waste. The terms of the ECR allow LG&E to receive a return on and of investments two months after the capital is deployed. We view this to be credit supportive compared to the traditional ratemaking process where there would be longer regulatory lag due both to the length of the construction period and subsequent rate case proceedings.

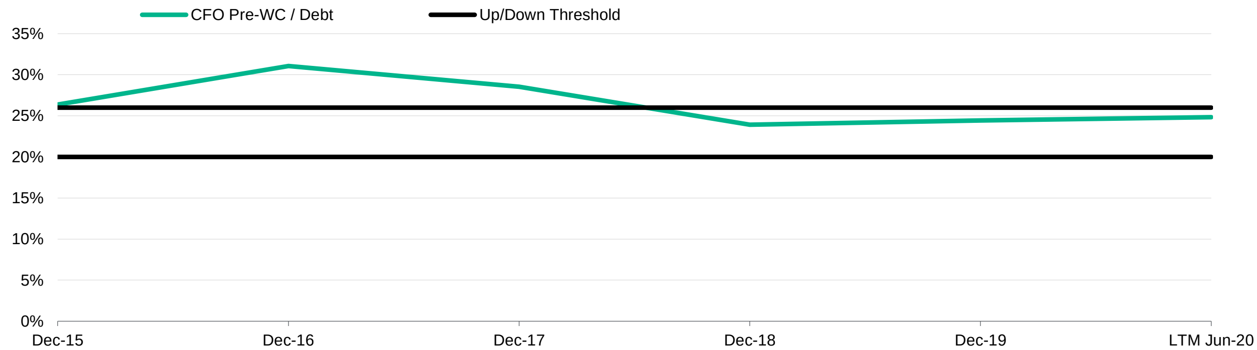
Stable financial profile, but slightly pressured credit metrics

Historically, LG&E has maintained a strong financial profile with its ratio of CFO pre-WC to debt staying in the mid to high-20% range. This metric was negatively impacted by the tax reform and we expect it to continue to weaken over the next 12-18 months, with the elevated capital investment the primary driver of the pressure. Furthermore, it is possible that metrics may weaken further due the negative impact of the COVID pandemic. However, we do not expect the impact to be material because the utility experienced an increase in the residential usage while commercial and industrial customer usage declined. In 2019, residential electric sales generated approximately 40% of LG&E's total revenue while commercial and industrial sales contributed the remainder.

LG&E's metrics are currently and will remain appropriately positioned for its credit profile. As of the last twelve month (LTM) period ending 30 June 2020, the utility's CFO pre-WC to debt was 24.8%, or 25.5% on average for the past three years. The decline in metrics from historical levels has been caused by elevated capital investments as well as the negative impact of tax reform. However, prudent cost recovery mechanisms that are in place should result in timely recovery of investments and help LG&E maintain its key credit metrics within an adequate range. Also, capital contributions received from LKE of approximately $53 million as of LTM 30 June 2020 has slightly helped to mitigate the pressure on its cash flow.

Exhibit 6

LG&E's Historical CFO pre-WC to Debt vs Financial Metric Upgrade/Downgrade Thresholds



The financial metric threshold indicated are one of several factors that could result in an upgrade or downgrade of the ratings if they are above or below that level for a sustained period.
Source: Moody's Financial Metrics

ESG considerations

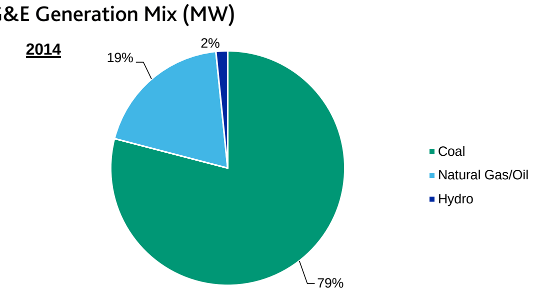
Environmental

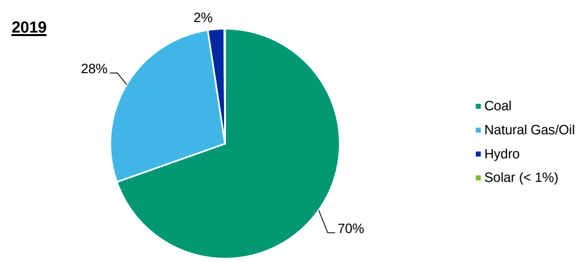
LG&E has elevated carbon transition risk within the US regulated utility sector because it is a vertically integrated utility that has large, fossil based generation capacity. LG&E has total generation capacity of 2.8 GW, of which 1.9 GW (70%) is coal-fired, which provides the majority (86%) of LG&E's electricity generation output. The remaining 14% of the generating output is comprised mainly of gas/oil-fired, hydro, and solar facilities. LG&E's generation fuel mix became more diversified in 2015 when the new 660 MW Cane Run gas-fired power plant started commercial operations, replacing the retired Tyrone and Green River coal-fired power plants as well as the Cane Run coal plant.

LG&E and KU received approval from the KPSC to develop a 4 MW solar facility to service a solar share program. The solar share program is a voluntary program that allows customers to subscribe for capacity in the solar share facility. In January 2020, LG&E and KU requested approval from the KSPC for the purchase of 100 MW of solar power in connection with the green tariff option established in the most recent Kentucky rate cases. KSPC has approved the solar contract subject to changes. LG&E and KU will purchase the initial 20 years of output of a proposed third-party solar generation facility and resell the majority of the power as renewable energy to two large industrial customers and use the remaining power for other customers.

Exhibit 7

LG&E Generation Mix (MW)





Source: Company reports

Fuel concentration in coal is typically considered to be a significant credit negative. However, we do not view LG&E's high reliance on coal to be as negative as some other companies because the state of Kentucky is very supportive of the coal industry. This support is evidenced by the ECR, which provides the company with credit supportive terms for its investments in coal-related environmental expenditures. However, LG&E is exposed to the risk of potentially needing to make a more rapid transition to clean energy in the future if carbon policies change.

PPL has enhanced transparency and disclosure, especially related to its environmental risks, over the last three years. PPL published a 2019 sustainability report, has set a more aggressive carbon reduction goal of at least 80% from 2010 levels by 2050 and has accelerated its previous 70% goal by 10 years to 2040. It also reiterated the assessment outcome for considering a two-degree scenario analysis based on the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD). Under these carbon regulation policy scenarios, PPL's analysis indicated that CO2 emissions from the company's Kentucky utilities' generation assets would be reduced 45-90% from 2005 levels by 2050.

Social

Social risks are primarily related to LG&E's customer and regulatory relations as well as demographic and societal trends. LG&E's regulatory environment, as well as its interaction with the KPSC, is important in considering the company's social risk. Also, the safety and reliability of its operations are extremely important social considerations. Given recent developments related to the COVID-19 pandemic, there is a possibility of increasing social risk longer term as the affordability of the utility bill and prolonged recessionary impact have a negative impact on LG&E.

Governance

As a subsidiary of PPL, corporate governance considerations include the financial policy and risk management of its parent company. We note that a stable financial position is an important characteristic for managing environmental and social risks.

Liquidity analysis

We expect LG&E to maintain an adequate liquidity profile over the next 12-18 months. Although the utility has an elevated capital investment program over the next few years, we anticipate that its liquidity will be supported by relatively stable and predictable cash flows and good access to capital markets.

LG&E's liquidity is supported by a $500 million syndicated credit facility that expires in January 2024. As of 30 June 2020, the credit facility had $500 million of available capacity. LG&E's credit facility contains one financial covenant, a limitation on the ratio of debt to capitalization of 70%, which the company was in compliance with at the end of the second quarter of 2020. The facility does not contain a material adverse change clause.

Over the LTM period ending 30 June 2020, LG&E generated cash flow from operations of approximately $553 million, spent about $483 million in capital investments and paid $187 million in dividends, resulting in a negative free cash flow of approximately $122 million. The shortfall was partially financed with equity contributions from the parent. Due to the high level of planned capital investments, we expect LG&E to remain in a negative free cash flow position over the next 12-18 months.

LG&E's next long-term debt puts are $128 million of revenue bonds with a mandatory purchase in April 2021, $70 million of first mortgage bonds due May 2021, $66 million of revenue bonds with a mandatory purchase in June 2021, and $27.5 million of first mortgage bonds due September 2021, respectively. The next stated debt maturity is not until 2025 when $300 million of senior secured notes are due.

LG&E and KU Energy (LKE), the intermediate parent company of LG&E, manages the liquidity of its two subsidiaries on a consolidated basis, although each utility has a separate credit facility. KU has a separate $400 million syndicated credit facility maturing in January 2024. As of 30 June 2020, KU had all $400 million available. The facility contains a financial covenant requiring that the companies' debt to total capitalization not exceed 70%. All entities were in compliance as of 30 June 2020.

Rating methodology and scorecard factors

Exhibit 8
Rating Factors
Louisville Gas & Electric Company

Regulated Electric and Gas Utilities Industry Scorecard [1][2]	Current LTM 6/30/2020		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	7.6x	Aa	6.5x - 7.5x	Aa
b) CFO pre-WC / Debt (3 Year Avg)	25.5%	A	23% - 25%	A
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	18.0%	A	13% - 18%	Baa
d) Debt / Capitalization (3 Year Avg)	38.9%	A	38% - 40%	A
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		A2		A3
HoldCo Structural Subordination Notching		0		0
a) Scorecard-Indicated Outcome		A2		A3
b) Actual Rating Assigned		A3		A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 6/30/2020(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Appendix

Exhibit 9

Cash Flow and Credit Metrics [1]

CF Metrics	Dec-16	Dec-17	Dec-18	Dec-19	LTM Jun-20
As Adjusted					
FFO	**589**	**557**	**527**	**548**	**549**
+/- Other	(7)	9	(8)	10	6
CFO Pre-WC	**582**	**566**	**519**	**558**	**555**
+/- ΔWC	11	(22)	29	(19)	(2)
CFO	**593**	**544**	**548**	**539**	**553**
- Div	128	192	156	182	187
- Capex	452	471	567	493	483
FCF	**13**	**(119)**	**(175)**	**(136)**	**(117)**
(CFO Pre-W/C) / Debt	31.1%	28.5%	23.9%	24.4%	24.8%
(CFO Pre-W/C - Dividends) / Debt	24.2%	18.9%	16.7%	16.5%	16.5%
FFO / Debt	31.4%	28.1%	24.3%	24.0%	24.6%
RCF / Debt	24.6%	18.4%	17.1%	16.0%	16.2%
Revenue	1,430	1,453	1,496	1,500	1,485
Cost of Good Sold	457	451	496	444	400
Interest Expense	74	73	79	88	89
Net Income	205	216	204	231	242
Total Assets	6,360	6,619	6,947	7,133	7,156
Total Liabilities	3,900	4,107	4,275	4,390	4,316
Total Equity	2,460	2,512	2,672	2,743	2,840

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months
Source: Moody's Financial Metrics

Exhibit 10

Peer Comparison Table [1]

	Louisville Gas & Electric Company A3 Stable			Kentucky Power Company Baa3 Stable			Black Hills Power, Inc. A3 Stable			Empire District Electric Company (The) Baa1 Stable		
(in US millions)	FYE Dec-18	FYE Dec-19	LTM Jun-20	FYE Dec-18	FYE Dec-19	LTM Jun-20	FYE Dec-18	FYE Dec-19	LTM Jun-20	FYE Dec-18	FYE Dec-19	LTM Jun-20
Revenue	1,496	1,500	1,485	642	619	579	298	291	277	698	644	602
CFO Pre-W/C	519	558	555	95	93	97	95	89	88	265	211	209
Total Debt	2,171	2,283	2,235	951	1,037	1,088	398	447	483	912	898	898
CFO Pre-W/C / Debt	23.9%	24.4%	24.8%	10.0%	8.9%	8.9%	23.9%	19.9%	18.1%	29.0%	23.5%	23.3%
CFO Pre-W/C – Dividends / Debt	16.7%	16.5%	16.5%	10.0%	8.4%	8.9%	14.9%	19.9%	14.0%	18.6%	20.2%	21.6%
Debt / Capitalization	39.7%	39.9%	38.7%	45.6%	46.4%	47.0%	43.6%	44.4%	46.2%	44.9%	42.8%	42.5%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade
Source: Moody's Financial Metrics

Ratings

Exhibit 11

Category	Moody's Rating
LOUISVILLE GAS & ELECTRIC COMPANY	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Bkd LT IRB/PC	A1
Commercial Paper	P-2
Bkd Other Short Term	P-2
ULT PARENT: PPL CORPORATION	
Outlook	Stable
Issuer Rating	Baa2
PARENT: LG&E AND KU ENERGY LLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1

Source: Moody's Investors Service

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CREDIT OPINION
23 October 2020

Update

Rate this Research

RATINGS

LG&E and KU Energy LLC

Domicile	Louisville, Kentucky, United States
Long Term Rating	Baa1
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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LG&E and KU Energy LLC

Update to credit analysis

Summary

LG&E and KU Energy LLC (LKE) is an intermediate holding company of two vertically integrated utilities: Louisville Gas & Electric Company (LG&E) and Kentucky Utilities Company (KU). LKE is wholly owned by PPL Corporation (PPL). LKE's credit strengths include its supportive regulatory environments in the states of Kentucky and Virginia, where its utility subsidiaries operate. Historically, both subsidiaries have produced relatively consistent credit metrics from stable utility operations. LG&E and KU contribute approximately 19% and 22%, respectively, of the cash flow of its ultimate parent company, PPL. LG&E and KU's large capital investment plans may pressure credit metrics, which will cause LKE's ratio of cash flow from operations before changes in working capital (CFO pre-WC) to debt to be in a 16% to 18% range, which is slightly weaker than historical levels. To a lesser extent, LG&E and KU's positive credit factors are somewhat offset by a lack of fuel and geographic diversity. We also consider the degree of structural subordination that exists at LKE relative to a substantial amount of debt at its operating utility subsidiaries.

The supportive regulatory environment of Kentucky, where both KU and LG&E operate, has a transparent recovery framework under the Kentucky Public Service Commission (KPSC). A minor portion of KU's utility operations is in Virginia and is regulated by the Virginia State Corporation Commission (VSCC). We also view the regulatory environment in Virginia to be supportive. LKE's subsidiaries have various tracker mechanisms allowed by the commissions and they provide relatively timely recovery of the company's investment costs.

Recent developments

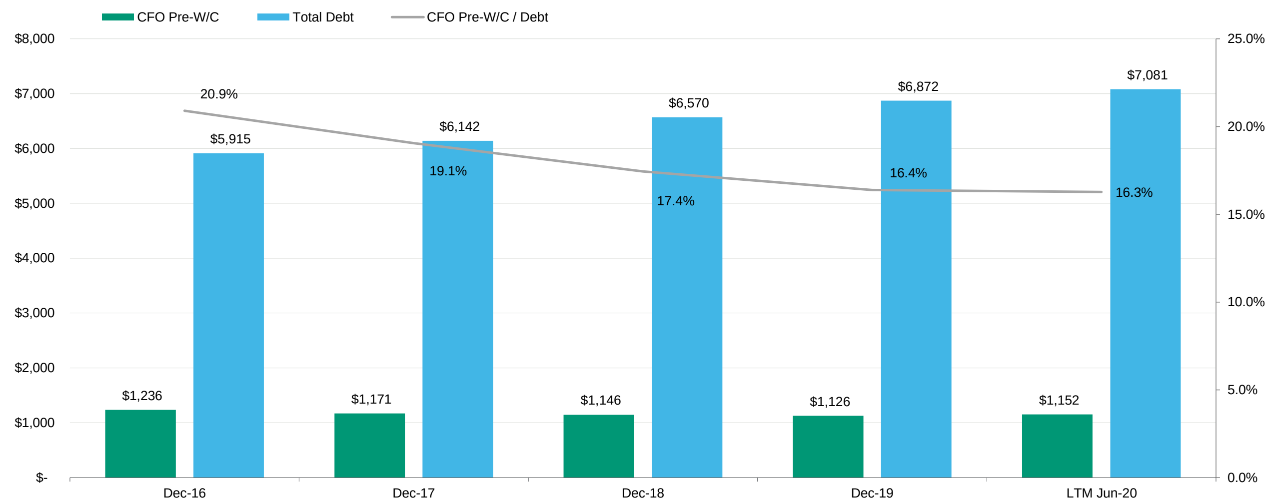
In August 2020, PPL announced that it had initiated a process to sell its utility assets in the United Kingdom that have a total estimated rate base of around $10 billion and approximately $8 billion of debt. If PPL is successful in divesting its UK assets, we estimate its Kentucky operations will proportionally increase to more than half of rate base from around 37%. Due to their vertically integrated utility business model with coal as the primary fuel source for its generation in Kentucky, we would view PPL's overall business risk to be higher.

The rapid spread of the coronavirus outbreak, severe global economic shock and asset price volatility are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

We expect LKE to be relatively resilient to recessionary pressures related to the coronavirus because of its rate regulated business model and timely cost recovery mechanisms.

Nevertheless, we are watching for electricity usage declines, utility bill payment delinquency, and the regulatory response to counter these effects on earnings and cash flow. As events related to the coronavirus continue, we are taking into consideration a wider range of potential outcomes, including more severe downside scenarios. The effects of the pandemic could result in financial metrics that are weaker than expected; however, we see these issues as temporary and not reflective of the long-term financial profile or credit quality of LKE.

Exhibit 1
Historical CFO Pre-WC, Total Debt and CFO Pre-WC to Debt ($ MM)



Source: Moody's Financial Metrics

Credit strengths

» Supportive regulatory frameworks in Kentucky and Virginia

» Adequate financial profile with transparent and predictable cash flows

Credit challenges

» Slightly pressured credit metrics due to utility subsidiaries' large capital investment program

» High coal concentration for its power generation fuel

» Moderate carbon transition risk

Rating outlook

LKE's stable outlook reflects our expectation that the regulatory environments in Kentucky and Virginia will remain supportive and consistent. The stable outlook also incorporates our view that LKE will continue to generate predictable cash flow and adequate financial metrics, including a ratio of CFO pre-WC to debt in the 16%-18% range as its utilities execute a large capital investment program. It also considers the stable outlook of parent company PPL.

Factors that could lead to an upgrade

LKE's rating could be upgraded if its financial metrics increase, including CFO pre-WC to debt above 20% on a sustained basis. A rating upgrade would likely require an upgrade of its utility operating subsidiaries or a material reduction of debt at LKE. However, it is unlikely that LKE's rating will be upgraded while the subsidiaries are in the midst of large capital investment programs.

Factors that could lead to a downgrade

LKE's ratings could be downgraded if one or both of the subsidiaries experience negative rating actions or a significant deterioration in the credit supportiveness of the regulatory environments. Additionally, LKE's rating could be downgraded if its financial metrics deteriorate, such that CFO pre-WC to debt declines below 16% for an extended period of time. LKE's rating could also be downgraded if there is a material increase in LKE debt levels.

Key indicators

Exhibit 2

LG&E and KU Energy LLC [1]

	Dec-16	Dec-17	Dec-18	Dec-19	LTM Jun-20
CFO Pre-W/C + Interest / Interest	6.4x	6.1x	5.6x	5.2x	5.3x
CFO Pre-W/C / Debt	20.9%	19.1%	17.4%	16.4%	16.3%
CFO Pre-W/C – Dividends / Debt	15.6%	12.5%	12.8%	11.9%	11.9%
Debt / Capitalization	48.2%	53.3%	53.8%	53.5%	53.7%

[1]All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Profile

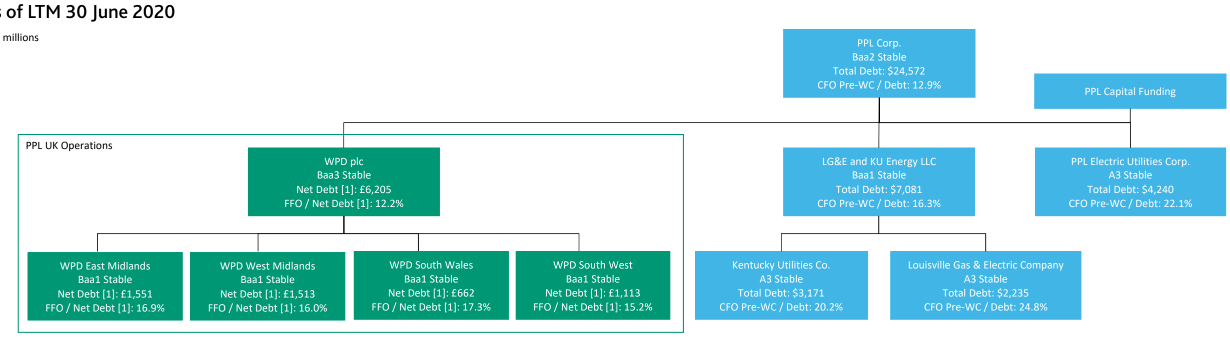
LG&E and KU Energy LLC (LKE) is an intermediate holding company with two fully regulated operating subsidiaries: Louisville Gas and Electric Company (LG&E, A3 stable) and Kentucky Utilities (KU, A3 stable). LG&E and KU are engaged in the generation, transmission and distribution of electricity and the storage, distribution and sale of natural gas in Kentucky. LKE provides transmission and distribution services to approximately 976,000 electricity customers and 329,000 natural gas customers predominantly in Kentucky.

LKE is wholly owned by PPL Corporation (PPL, Baa2 stable), a diversified utility holding company headquartered in Allentown, PA.

Exhibit 3

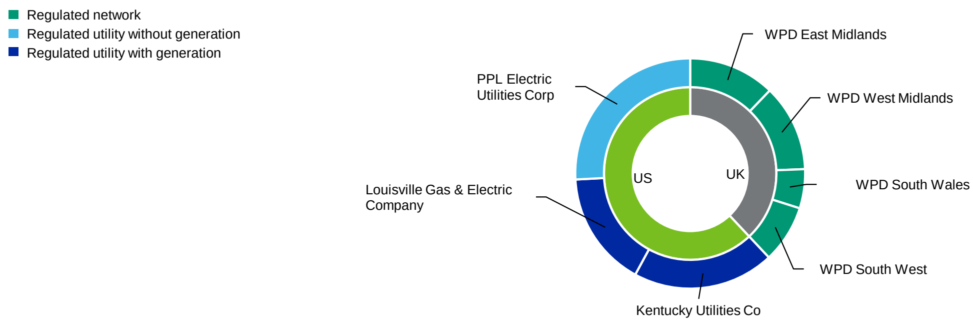
Organizational Structure
As of LTM 30 June 2020

$ in millions



[1] As of 3/31/2020; CFO Pre-WC to Debt is not a key metric we use for WPD and subsidiaries. WPD and subsidiaries are assessed under the Regulated Electric and Gas Networks Industry Grid.
[2] Metrics are based on 'adjusted' financial data and incorporate Moody's Global Standard Adjustments for non-financial corporations.
Source: Moody's Financial Metrics

Exhibit 4
PPL's rate base breakdown between the US and UK jurisdictions



Source: Company Reports

Detailed credit considerations

Supportive regulatory environments in Kentucky and Virginia

We view the regulatory frameworks provided by Kentucky and Virginia to be supportive. The KPSC has approved various tracker mechanisms that provide timely recovery of costs outside of a general rate case. Some of the authorized tracker mechanisms include a Fuel Adjustment Clause (FAC), an Environmental Cost Recovery Surcharge (ECR), a Gas Supply Clause (GSC), a Gas Line Tracker (GLT), and a Demand-Side Management (DSM) Cost Recovery Mechanism. The Kentucky operating utilities do not have decoupling mechanisms in place, which subjects LG&E and KU's revenue to some volatility. However, the impact on its revenue due to non-weather related demand fluctuations is minimized because of the DSM mechanism.

Both KU and LG&E completed their last Kentucky rate case in April 2019. The case was settled and the combined electric and gas rate increase of approximately $77 million was approved by the KPSC. The increase was based on a 9.725% return on equity but the settlement did not disclose the allowed equity layer incorporated in the increase.

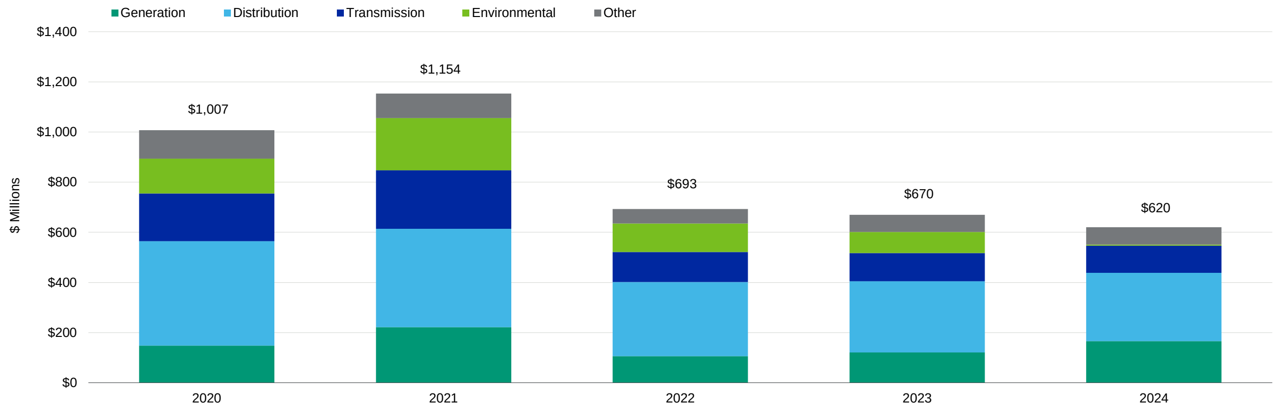
The KPSC also approved the termination of the Tax Cuts and Jobs Act (TCJA) bill credit mechanism which was used to reduce both electric and gas rates to reflect the impact of tax reform. When the new rates from the latest rate cases were implemented, the termination became effective. This represented a total annual revenue increase of $114 million for KU and $73 million for LG&E, effective as of May 2019.

In July 2019, KU filed for an electric rate case in Virginia, requesting a revenue increase of approximately $13 million. KU also requested an allowed ROE of 10.5% and an equity layer of 54.04%. In April 2020, the VSCC authorized a rate increase of $9 million under a settlement that did not specify the allowed ROE and equity layer.

Large capital investment plan over the next five years

LG&E and KU are currently in the midst of a large capital investment plan and expect to spend approximately $4.1 billion including capital investments that are recovered under rate adjustment mechanisms combined over the next five years. Both companies' capitalization for ratemaking purposes is estimated around $10 billion. Approximately $1.7 billion will be spent on distribution facilities, $763 million on generating facilities, $549 million on environmental, $764 million transmission facilities, and $407 million on other expenses. The total projected capital investment represents about 32% of LKE's net book value of property, plant and equipment, which was about $13 billion at the end of 2019.

Exhibit 5
Projected Capital Investment Plan



Source: Company Reports

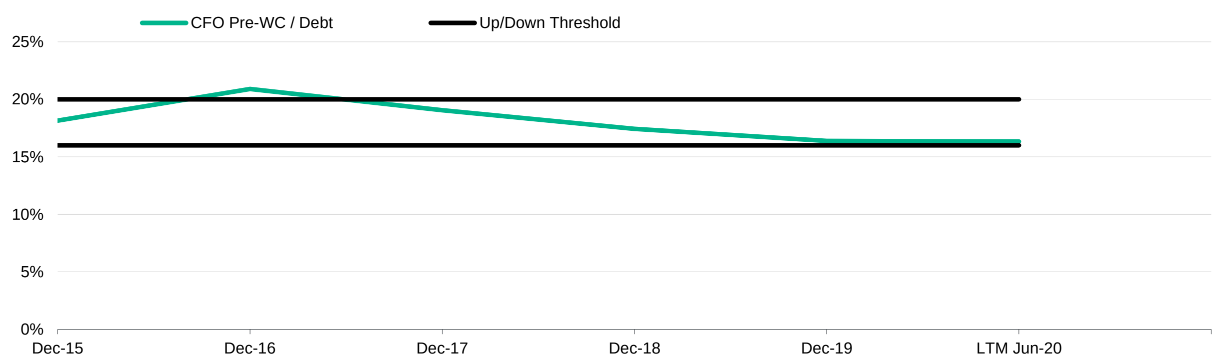
We expect cost recovery risk related to this large capital investment to be meaningfully moderated by Kentucky's supportive regulatory environment, especially regarding environmental expenditures through the ECR. The KPSC is also authorized to grant a return on construction work in progress (CWIP) in rate case proceedings, a credit positive. Moreover, the ECR minimizes regulatory lag for investments associated with coal combustion waste. The terms of the ECR allow the LKE utilities to receive a return on and of investments two months after the capital is deployed. We view this to be credit supportive compared to a traditional rate making process where there would be longer regulatory lag due to the length of the construction period and subsequent rate case proceedings.

Adequate financial profile, but slightly pressured credit metrics

Historically, LKE has maintained a consistent financial profile with its ratio of CFO pre-WC to debt in the high teens range. However, we expect metrics to be weaker, closer to the mid-teens range, over the next 12-18 months. Furthermore, it is possible that metrics may weaken further due the negative impact of the COVID pandemic. However, we do not expect the impact to be material because the utilities experienced an increase in residential usage while commercial and industrial customer usage declined. In 2019, residential sales generated approximately 40% of KU and LG&E's total revenue while commercial and industrial sales contributed the remainder.

As of the last twelve month (LTM) period ending 30 June 2020, CFO pre-WC to debt was 16.3%, or 17.6% on average for the past three years. The decline in metrics has been caused for the most part by elevated capital investments. However, existing cost recovery mechanisms should result in timely recovery of investments and help LKE maintain its key credit metrics within the adequate ranges.

Exhibit 6
LKE's Historical CFO pre-WC to Debt vs Financial Metric Upgrade/Downgrade Thresholds



The financial metric threshold indicated are one of several factors that could result in an upgrade or downgrade of the ratings if they are above or below that level for a sustained period.
Source: Moody's Financial Metrics

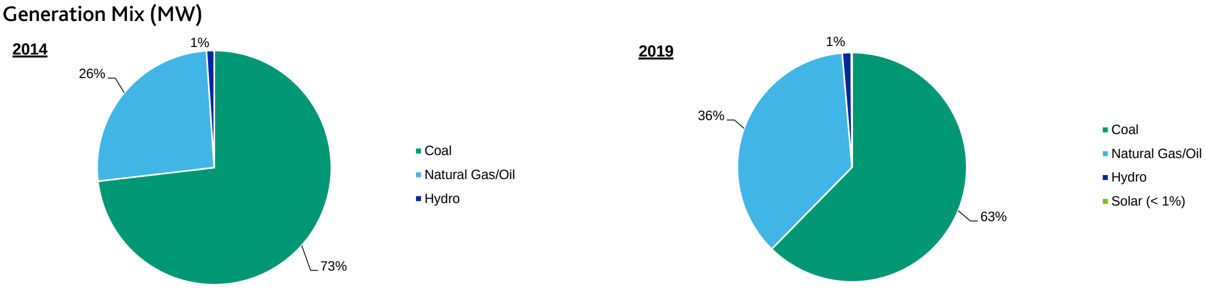
ESG considerations

Environmental

LKE has moderate carbon transition risk within the US regulated utility sector because it is a vertically integrated intermediate holding company with regulated utilities that have a large, fossil based generation capacity. Kentucky's political and regulatory environment is supportive of coal mining and related industries. LKE has a total generation capacity of 7.6 GW, and 4.7 GW (62%) is coal-fired, which provides the majority (79%) of the electricity generation output. The remaining 21% of the output is comprised mainly of gas/oil-fired, hydro, and solar facilities. Over the last two years, LKE's fuel mix improved with the addition of the Cane Run 660-MW gas-fired combined-cycle power plant, replacing the older retired coal-fired power plants Tyrone and Green River as well as the Cane Run coal plant. Due to environmental requirements and energy efficiency measures, KU retired two older coal units at the EW Brown plant in the first quarter of 2019 with a combined capacity of 272 MW.

LG&E and KU received approval from the KPSC to develop a 4 MW solar facility to service a solar share program. The solar share program is a voluntary program that allows customers to subscribe capacity in the solar share facility. In January 2020, LG&E and KU requested approval from the KSPC for the purchase of 100 MW of solar power in connection with the green tariff option established in the most recent Kentucky rate cases. KSPC has approved the solar contract subject to changes. LG&E and KU will purchase the initial 20 years of output of a proposed third-party solar generation facility and resell the majority of the power as renewable energy to two large industrial customers and use the remaining power for other customers.

Exhibit 7
LKE Generation Mix (MW)



Source: Company reports

Fuel concentration in coal is typically considered to be a significant credit negative. However, we do not view LKE's high reliance on coal to be as negative as some other companies because the state of Kentucky is very supportive of the coal industry. This support is evidenced by the ECR, which provides the company with credit supportive terms for its investments in coal-related environmental expenditures. However, LKE is exposed to the risk of potentially needing to make a more rapid transition to clean energy in the future if carbon policies change.

PPL has enhanced transparency and disclosure, especially related to its environmental risks, over the last three years. PPL has published a 2019 sustainability report and has also set a more aggressive carbon reduction goal of at least 80% from 2010 levels by 2050 and has accelerated its previous 70% goal by 10 years to 2040. It also reiterated the assessment outcome for considering a two-degree scenario analysis based on the recommendations of the Task Force on Climate Related Financial Disclosure (TCFD). Under these carbon regulation policy scenarios, PPL's analysis indicated that the CO_2 emissions from the company's Kentucky utilities' generation assets would be reduced 45-90% from 2005 levels by 2050.

Social

Social risks are primarily related to the Kentucky utilities customer and regulatory relations as well as demographic and societal trends. LG&E and KU's regulatory environment as well as its interaction with the KPSC and VSCC are important in considering the companies' social risk. Also, the safety and reliability of its operations are extremely important for its social considerations. Given recent developments related to the COVID-19 pandemic, there is a possibility of increasing social risk longer term as the affordability of the utility bill and prolonged recessionary impact have a negative impact on LG&E and KU.

Governance

As an intermediate holding company of PPL, corporate governance considerations include the financial policy and risk management of the parent company. We note that a stable financial position is an important characteristic for managing environmental and social risks.

Liquidity analysis

We expect LKE to maintain an adequate liquidity profile over the next 12-18 months. Although the utilities have an elevated capital investment program over the next few years, we anticipate their liquidity will be supported by relatively stable and predictable cash flow and good access to capital markets.

LKE subsidiaries have separate credit facilities. LG&E's liquidity is supported by a $500 million syndicated credit facility that expires in January 2024. As of 30 June 2020, the credit facility had $500 million of available capacity. KU's liquidity is supported by a separate $400 million syndicated credit facility that expires in January 2024. As of 30 June 2020, the credit facility had $400 million of available capacity. Both credit facilities contain one financial covenant, a limitation on the ratio of debt to capitalization of 70%, which they were in compliance with at the end of the second quarter of 2020. The facilities do not contain material adverse change clause.

Over the LTM period ending 30 June 2020, LKE generated consolidated cash flow from operations of approximately $1.2 billion, spent about $1.1 billion in capital investments and paid $311 million in dividends, resulting in a negative free cash flow of approximately $220 million. Due to the high level of planned capital investments at the LKE subsidiaries, we expect LKE to remain in a negative free cash flow position over the next 12-18 months.

LKE's next long-term debt maturity is $250 million senior notes due in October 2021.

Structural considerations

As an intermediate holding company, the current rating at LKE factors in the degree of structural subordination that exists relative to the debt outstanding at the operating utilities, KU and LG&E. We estimate the percentage of parent debt at LKE to be approximately 22% of the total consolidated debt by subtracting the long-term debt at KU and LG&E from the total long-term debt at LKE. We note that $650 million of the estimated parent debt is intercompany debt. The consolidated credit profile of PPL also influences LKE's rating.

Rating methodology and scorecard factors

Exhibit 8
Rating Factors
LG&E and KU Energy LLC

Regulated Electric and Gas Utilities Industry Scorecard [1][2]	Current LTM 6/30/2020		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	5.5x	A	5x - 5.5x	A
b) CFO pre-WC / Debt (3 Year Avg)	17.1%	Baa	16% - 18%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	12.5%	Baa	11% - 13%	Baa
d) Debt / Capitalization (3 Year Avg)	53.7%	Baa	51% - 54%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		Baa1		Baa1
HoldCo Structural Subordination Notching		-1		-1
a) Scorecard-Indicated Outcome		Baa2		Baa2
b) Actual Rating Assigned		Baa1		Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 6/30/2020(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics

Appendix

Exhibit 9

Cash Flow and Credit Metrics [1]

CF Metrics	Dec-16	Dec-17	Dec-18	Dec-19	LTM Jun-20
As Adjusted					
FFO	**1,177**	**1,129**	**1,069**	**1,155**	**1,172**
+/- Other	59	42	77	(29)	(20)
CFO Pre-WC	**1,236**	**1,171**	**1,146**	**1,126**	**1,152**
+/- ΔWC	(33)	20	80	(40)	5
CFO	**1,203**	**1,191**	**1,226**	**1,086**	**1,157**
- Div	316	402	302	308	311
- Capex	813	915	1,141	1,117	1,066
FCF	**74**	**(126)**	**(217)**	**(339)**	**(220)**
(CFO Pre-W/C) / Debt	20.9%	19.1%	17.4%	16.4%	16.3%
(CFO Pre-W/C - Dividends) / Debt	15.6%	12.5%	12.8%	11.9%	11.9%
FFO / Debt	19.9%	18.4%	16.3%	16.8%	16.6%
RCF / Debt	14.6%	11.8%	11.7%	12.3%	12.2%
Revenue	3,141	3,156	3,214	3,206	3,154
Cost of Good Sold	944	923	985	871	783
Interest Expense	227	230	251	268	270
Net Income	429	318	318	456	450
Total Assets	14,475	14,906	15,528	15,931	16,136
Total Liabilities	9,852	10,384	10,844	11,028	11,153
Total Equity	4,623	4,522	4,684	4,903	4,983

[1] All figures and ratios calculated using Moody's estimates & standard adjustments. Periods are Financial Year-End unless indicated otherwise. LTM = Last Twelve Months
Source: Moody's Financial Metrics

Exhibit 10

Peer Comparison Table [1]

	LG&E and KU Energy LLC			Vectren Utility Holdings, Inc.			Progress Energy, Inc.			Pepco Holdings, LLC		
	Baa1 Stable			A3 Stable			Baa1 Stable			Baa2 Stable		
	FYE	FYE	LTM	FYE	FYE	LTM	FYE	FYE	LTM	FYE	FYE	LTM
(in US millions)	Dec-18	Dec-19	Jun-20	Dec-18	Dec-19	Jun-20	Dec-18	Dec-19	Jun-20	Dec-18	Dec-19	Jun-20
Revenue	3,214	3,206	3,154	1,441	1,433	1,405	10,728	11,202	10,806	4,798	4,806	4,674
CFO Pre-W/C	1,146	1,126	1,152	407	339	486	2,574	3,482	3,448	1,095	1,217	1,136
Total Debt	6,570	6,872	7,081	1,959	2,185	2,223	21,146	22,520	22,912	6,415	6,859	6,992
CFO Pre-W/C / Debt	17.4%	16.4%	16.3%	20.8%	15.5%	21.9%	12.2%	15.5%	15.0%	17.1%	17.7%	16.3%
CFO Pre-W/C – Dividends / Debt	12.8%	11.9%	11.9%	14.2%	13.3%	18.8%	11.0%	15.5%	15.0%	12.0%	10.1%	8.0%
Debt / Capitalization	53.8%	53.5%	53.7%	45.3%	45.9%	45.5%	54.0%	53.1%	52.6%	34.8%	35.5%	35.3%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade
Source: Moody's Financial Metrics

Ratings

Exhibit 11

Category	Moody's Rating
LG&E AND KU ENERGY LLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1
PARENT: PPL CORPORATION	
Outlook	Stable
Issuer Rating	Baa2
KENTUCKY UTILITIES CO.	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Bkd LT IRB/PC	A1
Commercial Paper	P-2
Bkd Other Short Term	P-2
LOUISVILLE GAS & ELECTRIC COMPANY	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Bkd LT IRB/PC	A1
Commercial Paper	P-2
Bkd Other Short Term	P-2

Source: Moody's Investors Service

REPORT NUMBER 1249840

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CREDIT OPINION
26 March 2021

Update

Rate this Research

RATINGS

PPL Corporation

Domicile	Allentown, Pennsylvania, United States
Long Term Rating	Baa2
Type	LT Issuer Rating - Dom Curr
Outlook	Positive

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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EMEA	44-20-7772-5454

PPL Corporation

Update following positive outlook

Summary

PPL Corporation's (PPL) credit profile reflects its position as a holding company of an electric transmission and distribution (T&D) utility in Pennsylvania, an electric distribution network operator (DNO) under Western Power Distribution plc (WPD, Baa3 RUR-Up) in the United Kingdom, as well as vertically integrated electric utilities in Kentucky. On 18 March 2021, PPL announced that it had reached an agreement to sell WPD and its DNO subsidiaries to National Grid plc (National Grid, Baa2 stable). Separately, PPL agreed to acquire Rhode Island based Narragansett Electric Company (NECO, RUR-Up) from National Grid. After these transactions are completed, PPL will be a utility holding company with all of its operations in the US.

PPL's business risk profile will shift post closing with the risk associated with its Kentucky utility operations proportionally increasing. The business risk associated with these operations is higher due to their reliance on coal-fired generation assets and the resulting higher exposure to climate change. NECO, the transmission and distribution utility that PPL will be acquiring, exhibits comparatively low business and carbon transition risk as it does not own or operate any generation assets. The addition of NECO will somewhat offset PPL's higher Kentucky exposure. We expect that slightly more than half of PPL's rate base will be located in Pennsylvania and Rhode Island following the closing, where business risk is lower.

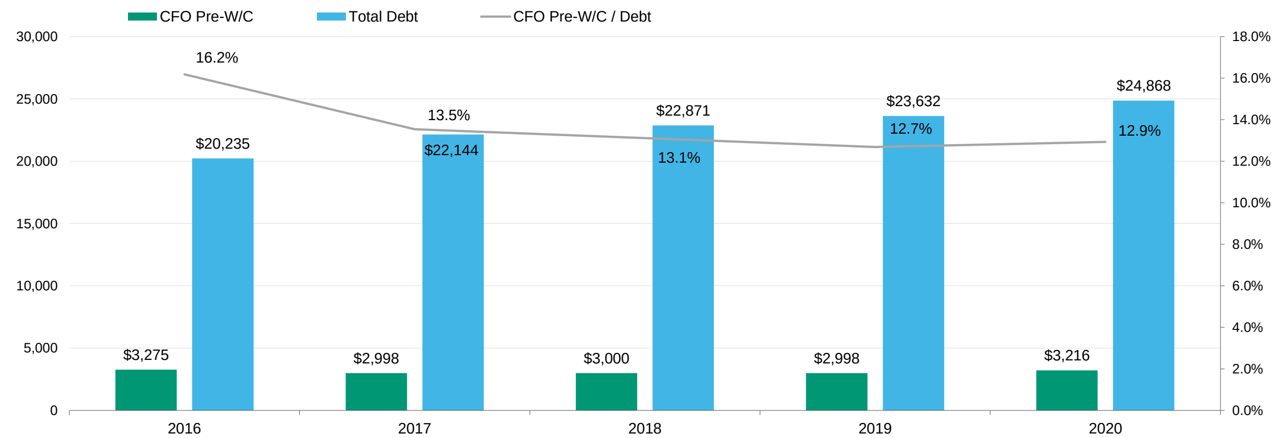
PPL's utility subsidiaries provide good earnings and cash flow visibility. The regulatory environment in both Pennsylvania and Kentucky is generally credit supportive and the utilities are able to produce stable credit metrics. PPL's management has articulated its commitment to improve its credit profile using the net proceeds of the UK asset sale, with the company now targeting a 16%-18% cash flow to debt metric range and plans its percentage of parent debt over the consolidated debt to be below 25% on a sustained basis. PPL's outlook was changed to positive from stable when the transaction was announced.

Coronavirus

The rapid spread of the coronavirus outbreak, severe global economic shock, low oil prices and asset price volatility are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

We do not view the impact of coronavirus outbreak to be a material credit driver for PPL because of the rate regulated business models of its utility subsidiaries. However, economic pressure on customers due to the pandemic will be an important credit consideration as we watch for electricity usage declines, utility bill payment delinquency, and the regulatory response to counter these effects on earnings and cash flow. We see these issues as temporary and not reflective of the core operations or long-term financial or credit profile of PPL.

Exhibit 1
Historical CFO Pre-WC, Total Debt and CFO Pre-WC to Debt ($MM)



Source: Moody's Financial Metrics

Credit strengths

» UK asset sale will improve credit metric and reduce holding company debt

» Stable financial profile at utilities with transparent and predictable cash flows

» Credit supportive regulatory environments

Credit challenges

» Increased business risk and lower regulatory and geographic diversity following sale

» Large, but declining, capital investment programs of operating subsidiaries

» Relatively high level of holding company debt

» Moderate carbon transition risk at its Kentucky subsidiaries

Rating outlook

PPL's positive outlook reflects our expectation that PPL will use some of the proceeds of the WPD divestiture to lower its overall leverage and improve its CFO pre-WC to debt ratio such that it is above its current upgrade threshold of 16% on a sustained basis.

Factors that could lead to an upgrade

PPL's ratings could be upgraded if the WPD and NECO sales are executed as expected and some proceeds are used to pay down debt, resulting in consolidated financial metrics improving such that its CFO pre-WC to debt ratio is above 16% on a sustained basis. Also, if the percentage of PPL's parent debt level is reduced significantly, an upgrade could be considered.

Factors that could lead to a downgrade

A rating downgrade could be considered if PPL's financial metrics deteriorate, including CFO pre-WC to debt falling below 12% on a sustained basis; if there is a significant increase in parent debt; or if the regulatory environments for its utility subsidiaries become contentious, increasing regulatory lag or reducing their ability to earn appropriate returns on their investments.

Key indicators

PPL Corporation [1]

	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20
CFO Pre-W/C + Interest / Interest	4.5x	4.2x	4.0x	4.0x	4.2x
CFO Pre-W/C / Debt	16.2%	13.5%	13.1%	12.7%	12.9%
CFO Pre-W/C – Dividends / Debt	11.0%	8.6%	8.1%	7.6%	7.8%
Debt / Capitalization	58.8%	62.2%	60.9%	59.2%	59.0%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Profile

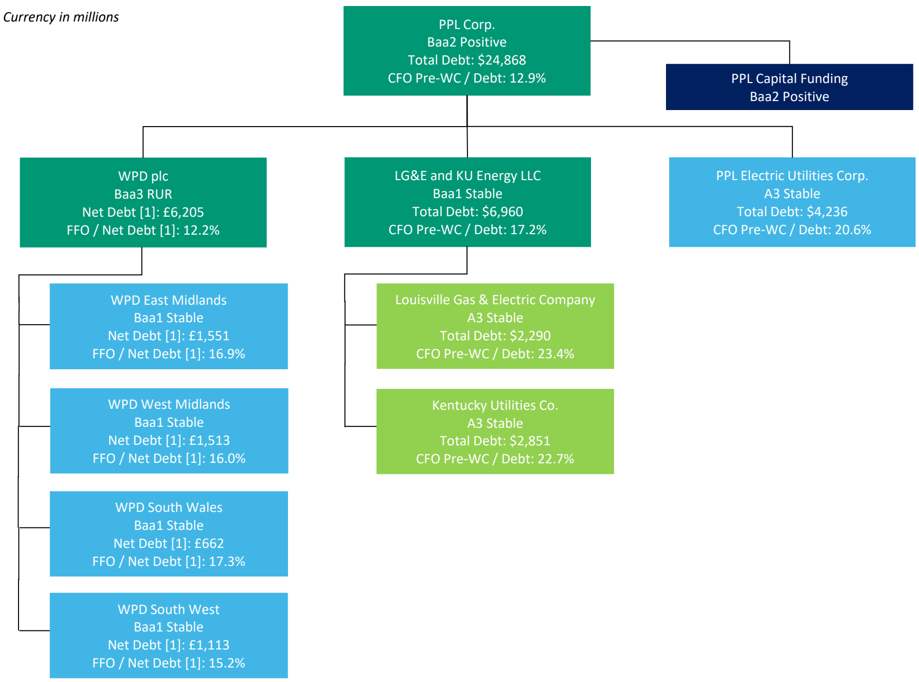
Headquartered in Allentown, Pennsylvania, PPL Corporation is a utility holding company with operations in Kentucky, Pennsylvania and the United Kingdom. Once the recently announced transactions are completed, it will be US-only based utility holding company with operations in three states including Rhode Island. Its Kentucky regulated utilities include Louisville Gas & Electric Company (LG&E, A3 stable) and Kentucky Utilities Company (KU, A3 stable), which operate under a traditional vertically integrated utility model. The two Kentucky utilities are held under an intermediate holding company, LG&E and KU Energy LLC (LKE, Baa1 stable). PPL's Pennsylvania operations are comprised of PPL Electric Utilities Corporation (PPLEU, A3 stable), an electric transmission business mostly regulated by the Federal Energy Regulatory Commission (FERC) and an electric distribution company regulated by the Pennsylvania Public Utility Commission (PAPUC). PPL, through its Kentucky operating subsidiaries, controls or owns about 7.6 GW of fossil-fired generating capacity in the US and currently sells electricity and natural gas to about 10.6 million customers in the US and UK.

Exhibit 3

Current PPL Corporation's organizational structure [2]

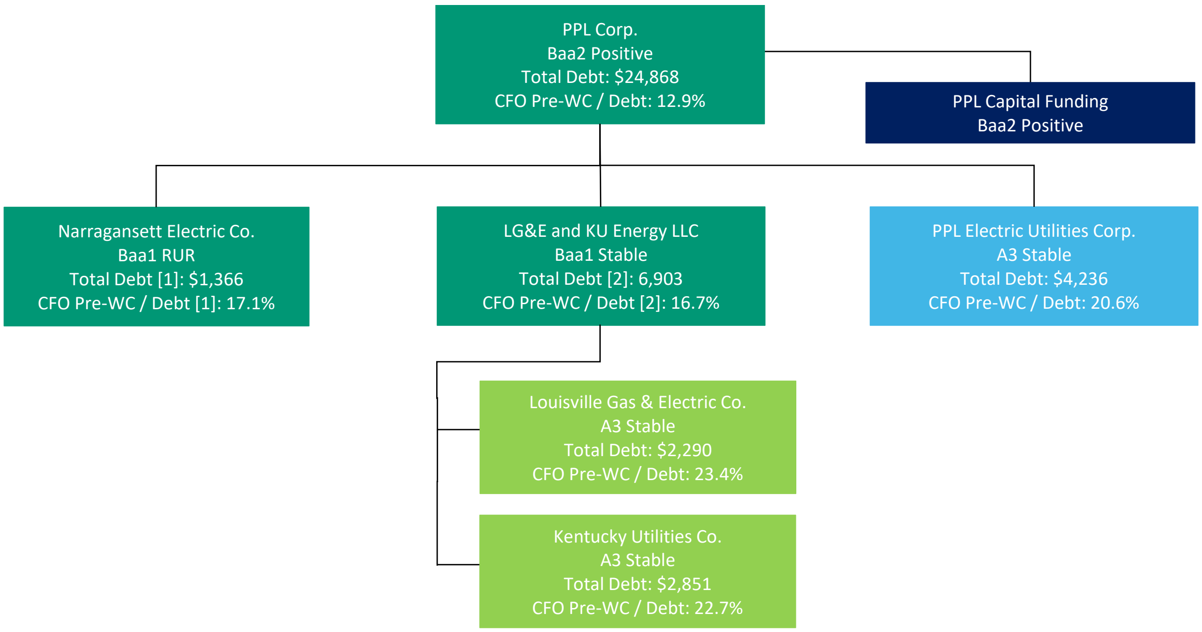
As of 31 December 2020

Currency in millions



[1] As of 3/31/2020; CFO Pre-WC to Debt is not a key metric we use for WPD and subsidiaries. WPD and subsidiaries are assessed under the Regulated Electric and Gas Networks Industry Grid
[2] Metrics are based on 'adjusted' financial data and incorporate Moody's Global Standard Adjustments for non-financial corporations
Source: Moody's Financial Metrics, Company reports

Exhibit 4
Pro-forma PPL Corporation's organizational structure
As of 31 December 2021

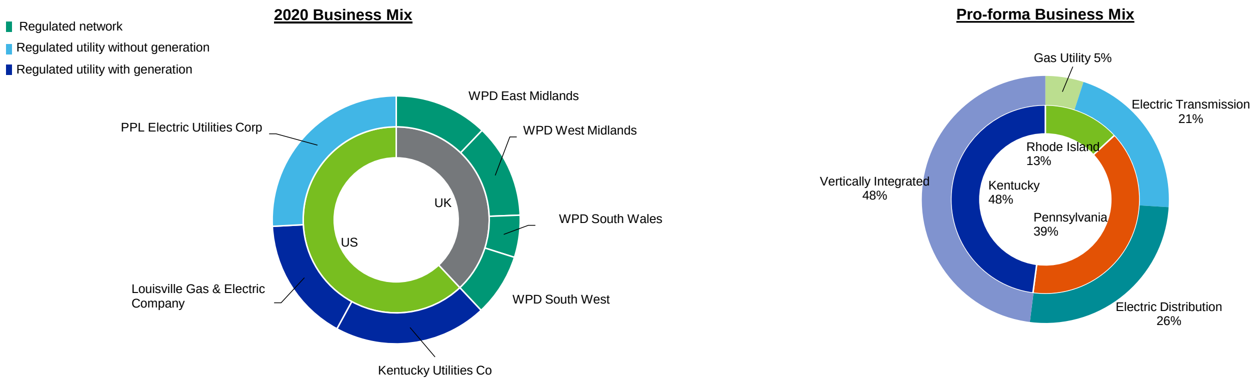


[1] As of year-end 3/31/2020
[2] Metrics are based on 'adjusted' financial data and incorporate Moody's Global Standard Adjustments for non-financial corporations
Source: Moody's Financial Metrics

Exhibit 5

Current and pro-forma business mix

Based on rate base



Source: Moody's Investors Service, Company reports

Detailed credit considerations

Financial profile expected to improve following UK asset sale and Rhode Island acquisition

On 18 March 2021, PPL announced that it reached an agreement with National Grid to sell its utility asset in the UK, WPD and its DNO subsidiaries, for approximately $10.5 billion. Separately, PPL agreed to acquire National Grid's Rhode Island utility business, NECO, for $3.8 billion.

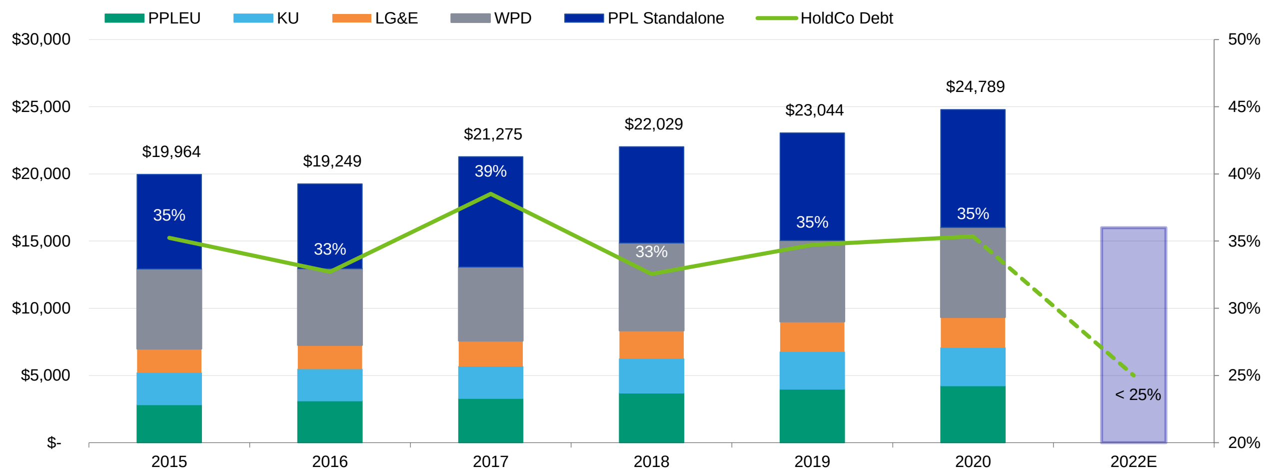
At year-end 2020, PPL's CFO pre-WC to debt was 12.9% and CFO pre-WC excluding dividends to debt was 7.8%. Metrics have slightly declined in recent years primarily due to the negative impact of 2018 tax reform and an elevated capital investment program, which was primarily funded with debt. However, prudent cost recovery mechanisms that result in timely recovery of investments has helped PPL to maintain key metric ranges that remain appropriate for its credit profile. Prior to the announcement of the transactions to divest WPD and to acquire NECO, we had expected PPL's CFO pre-WC to debt to be in the range of 12%-14% over the next 18-24 months.

However, PPL plans to use the net proceeds from the WPD sale to reduce debt, target higher credit metrics and improve its financial profile. The company now expects to generate CFO pre-WC to debt in the 16%-18% range and reduce holding debt to below 25% of consolidated debt on a sustained basis. This compares to approximately 35% at the end of 2020, with approximately $8 billion of holding company debt outstanding. Holding company debt at this levels generally leads to a wider differential between the credit quality of the parent company and its operating subsidiaries. The positive outlook on PPL reflects our expectation that this differential would narrow when PPL reduces the amount of holding company debt outstanding.

Exhibit 6

PPL maintains relatively high parent debt levels, but this is expected to significantly decrease

Composition of PPL reported debt, 2015-2020 and pro-forma



Source: Moody's Financial Metrics and Estimates

PPL's business risk profile will increase as a result of the transaction

Historically, we viewed PPL's overall business and regulatory risk profile to be lower than most of its US peers because we think that the UK utility regulatory environment is more credit supportive than that of US state regulation. PPL's UK operations make up approximately one third of PPL's total rate base and its cash flow contribution has averaged about one third of PPL's total cash flow over the last four years. When PPL divests its UK assets, we estimate that its Kentucky operations will proportionally increase to more than half of rate base from around 36%, without the addition of NECO.

Due to their vertically integrated utility business model with coal as the primary fuel source for its Kentucky generation, we would view PPL's overall business risk to be higher. However, the acquisition of NECO, a low risk transmission and distribution (T&D) electric operation and natural gas local distribution company (LDC), helps to somewhat offset the higher degree of Kentucky generation operations in PPL's business mix. We estimate that a little over half of PPL's rate base will now be in Pennsylvania and Rhode Island, where PPL will have low risk utility operations, after the transactions are completed.

In addition to the shift in its business risk, PPL will have smaller scale and diversity in its operations and cash flow to mitigate certain risks. The company's estimated rate base including NECO will be about $22 billion, compared to about $30 billion currently.

Stable earnings and cash flow generated by regulated utilities, some with commodity exposure

PPL currently has an electric transmission and distribution (T&D) utility in Pennsylvania, two vertically integrated subsidiaries in Kentucky, and four electricity distribution network subsidiaries in the UK. The sale of the PPL's UK operations will substantially reduce the company's size and diversity, as approximately 50%-60% of earnings are produced by its UK operations, which are consolidated under the intermediate holding company WPD. Although it is acquiring a low risk T&D utility in NECO, its rate base is much smaller than the regulated asset value (RAV) of WPD. Once both transactions are completed, PPL's credit quality will depend on the stable earnings and cash flow generated by only US regulated utilities.

PPLEU is a wires only utility that maintains some commodity exposure because it has provider of last resort (POLR) obligations. The risk associated with this exposure is minimal given the transparent purchased power cost pass-through mechanisms in place. PPLEU also enters into full requirements supply agreements to serve its POLR customers. PPL's Kentucky utilities have the most exposure to commodities because they own and operate generation assets to produce power for their customers. Although LG&E and KU have direct commodity exposure, Kentucky allows the cost of fuel to be recovered through a fuel adjustment clause within four months.

Exhibit 7
Regulatory environment for PPL to remain supportive

	Mechanisms	Allowed ROE
Pennsylvania	FERC Formula Rates, Distribution System Improvement Charge, Smart Meter Rider, Storm Cost Recovery, Alternative Ratemaking, Forward Test Year for distribution rate cases	11%[1]
Kentucky	Environmental Cost Recovery, Fuel Adjustment Clause, Gas Line Tracker, Forward Test Year for base rate cases, Gas Supply Clause, Demand Side Management	9.725%
Rhode Island	Decoupling, Energy Supply Costs, Storm Recovery, Bits Revenue, Energy Efficiency Incentive, LTCRER Incentive, REG remunerations	9.6%[2]

[1] Weighted average of transmission and distribution allowed ROE
[2] Weighted average of electric, gas and transmission allowed ROE
Source: Moody's Investors Service, Company reports

Supportive US regulatory frameworks

We view the company's existing US regulatory frameworks, including Kentucky, Pennsylvania as well as the Federal Energy Regulatory Commission (FERC), to be credit supportive. They result in stable and predictable earnings and cash flow generated from roughly $19 billion of combined rate base (as of year-end 2020). Kentucky has approved various tracker mechanisms that provide timely recovery of costs outside of a general rate case. Some of the authorized tracker mechanisms include a Fuel Adjustment Clause (FAC), an Environmental Cost Recovery Surcharge (ECR), a Gas Supply Clause (GSC), a Gas Line Tracker (GLT), and a Demand-Side Management (DSM) Cost Recovery Mechanism. The Kentucky operating utilities do not have decoupling mechanisms in place, however, which subjects LG&E and KU revenue to some volatility. However, the impact on revenue from non-weather related demand fluctuations is minimized because of the DSM mechanism.

In November 2020, KU and LG&E filed electric and gas rate cases with the KPSC. KU requested a $170 million electric rate increase and LG&E requested a $131 million electric and $30 million gas rate increase. The requested increases are based on a 10% ROE and 53.1% equity layer. A final decision is expected in June 2021. The applications will include requests to bring advanced metering infrastructure into effect to further enhance grid automation and reliability in the state.

PPLEU is regulated by the PAPUC and FERC, both with regulatory frameworks that we view as above average compared to other states. In Pennsylvania, the PAPUC allows utilities to use a fully projected future test year in rate proceedings, a credit positive, as it provides companies with the ability to forecast costs and earn a return on investments in a timely manner. PPLEU also utilizes a distribution system improvements charge (DSIC), a smart meter rider and other recovery mechanisms, reducing regulatory lag and providing for the timely recovery of and a return on incurred costs. These mechanisms provide the opportunity for accelerated cost recovery that will help support PPLEU's credit metrics during a period of elevated capital investments.

We do not expect PPLEU to file a rate case over the next 12-18 months. The utility's last general distribution rate case concluded in November 2015 when a settlement was reached and approved. The settlement authorized a $124 million electric distribution rate increase although it did not specify other factors such as the allowed return on equity (ROE). In Feburary 2020, the PAPUC lowered the ROE for the DSIC by 10 basis points to 9.45%. Despite the decrease, we continue to view the mechanism as credit supportive and expect PPLEU to continue to invest under this mechanism.

Relative to other electric utilities, a high percentage of PPLEU's rate base consists of FERC regulated transmission assets. As of year-end 2020, the rate base contribution from transmission was approximately 55% and this is expected to be maintained around 55% through 2025. We consider FERC regulation to be more predictable and credit supportive due to the formulaic nature of its rate case mechanisms. Based on the formula rate mechanism, PPLEU is currently authorized to earn an 11.68% ROE on its existing transmission assets, while the $650 million Susuehanna-Roseland transmission project is authorized to earn a 12.93% ROE due to incentive based rate treatment.

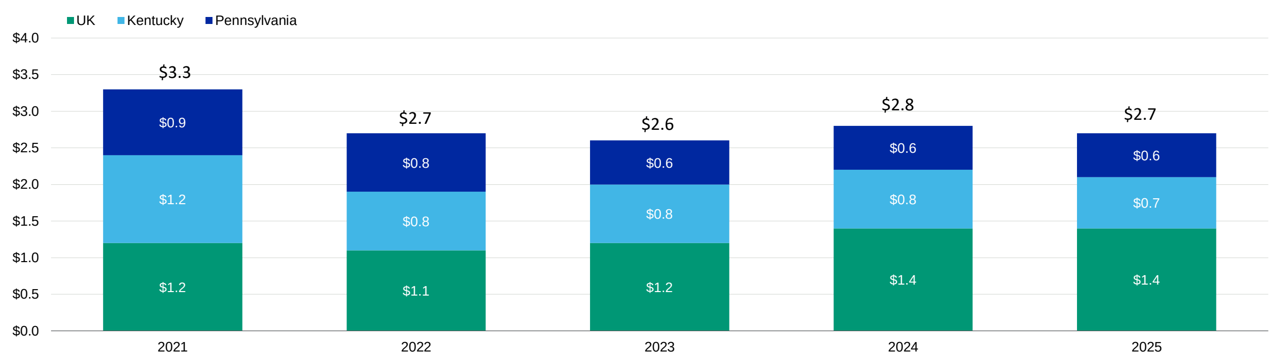
Since the rate setting process is not contested before state commissions and given its design to ensure timely recovery, we generally consider revenue collected under this regulatory framework to be more stable and predictable than state regulated utility businesses. However, a complaint has been filed by a third party challenging PPLEU's FERC ROE and proposing an alternative ROE of 8.5%. In October 2020, FERC issued an order for settlement procedures. In return, PPLEU filed a petition for review with the court of appeals in February 2021 because the company believes that the current ROE is reasonable.

NECO is regulated by the Rhode Island Public Utilities Commission (RIPUC), the Rhode Island Division of Public Utilities and Carriers (Division) and FERC. Its electric distribution rates are established under a multi-year framework with capital recovery mechanisms and a performance incentive revenue structure. Its gas distribution system operates under a revenue decoupling mechanism and has a storm cost recovery as well as energy efficiency tracker. Similar to PPLEU's transmission operations, NECO's transmission rates are set based on a formulaic, forward-looking rate setting mechanism that adjusts for changes in network load that impacts demand. This ensures the utility's ability to earn the allowed ROE and enhances the stability and predictability of cash flow, a credit positive. For more information, please see the latest published credit opinion on NECO.

Large, but declining capital expenditure plan

PPL is currently in the midst of a large capital investment plan. Prior to the announcement of the UK asset sale, PPL expected to spend about $14 billion over a five year horizon with the projected breakdown of capital investments by region as follows: $6.3 billion in the UK, $4.3 billion in Kentucky, and $3.5 billion in Pennsylvania. However, even considering the divestiture of its UK assets, PPL's capital investment plan is expected to decline. The company's planned capital investments represent about 47% of the company's total rate base, which is approximately $29.8 billion (as of year-end 2020). Although PPL plans to decrease its capital investments over time, we expect the company to continue to invest in its US system, at least at a level to maintain its rate base.

Exhibit 8
Current Capital Investment Plan for PPL's US and UK Regulated Utilities
($ billions)



Source: Company Reports

We expect that a significant amount of these investments will be recovered through regulatory recovery mechanisms outside of traditional base rate case proceedings. For instance, in Kentucky, we expect regulatory lag related to KU's large capital investment plan to be somewhat moderated by the supportive regulatory environment, especially regarding environmental expenditures through the ECR. The KPSC is also authorized to grant a return on construction work in progress (CWIP) in rate case proceedings, a credit positive. In Pennsylvania, the alternative ratemaking mechanisms, FERC transmission formula rate, DSIC mechanism and other recovery mechanisms are in place to reduce regulatory lag and provide for a more timely recovery of costs and a predictable return on investments. Together these mechanisms allow PPL to receive timely returns for approximately 80% of its investments in the US.

ESG considerations

Environmental

Overall, PPL is strongly positioned for the carbon transition with strategies and plans in place to mitigate carbon transition risk. Higher risk from its vertically integrated utilities in Kentucky that are concentrated in coal has historically been offset by lower carbon transition risk from the wires only utility operations in Pennsylvania and the UK. PPL's overall carbon transition risk exposure will increase with the divestiture of its UK assets.

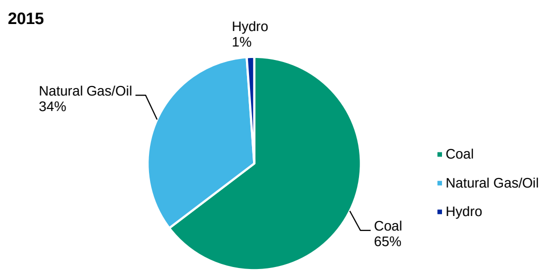
Fuel concentration in coal is typically considered to be a significant credit negative from an environmental standpoint. However, PPL's high reliance on coal in Kentucky is not as negative as some other utilities because the state is very supportive of the coal industry. This is evidenced by the ECR, which provides the company with credit supportive cost recovery provisions for its investments in coal-related environmental expenditures. However, PPL is exposed to the risk of potentially needing to make a more rapid transition to clean energy in Kentucky in the future if carbon policies change.

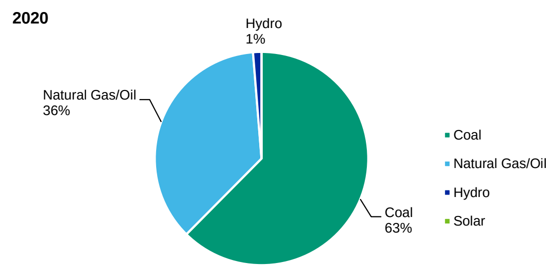
PPL has total generation capacity in the US of 7.6 GW, with 4.7 GW or 62% being coal-fired, providing the majority (79%) of its electricity generation output. The remaining 21% is comprised mainly of gas/oil-fired, hydro, and solar facilities. Over the last two years, PPL's fuel mix improved with the addition of 660 MW gas-fired combined-cycle power plant at Cane Run, replacing the older, retired Tyrone and Green River coal-fired power plants as well as the Cane Run coal plant. Due to environmental requirements and energy efficiency measures, KU retired two older coal units at the EW Brown plant in the first quarter of 2019 with a combined capacity of 272 MW.

PPL received approval from the KPSC to develop a 4 MW solar facility to service a solar share program, a voluntary program that allows customers to subscribe capacity in the solar share facility. In January 2020, PPL requested approval from the KPSC for the purchase of 100 MW of solar power in connection with the green tariff option established in the most recent Kentucky rate cases. The KPSC has approved the solar contract subject to certain changes. PPL will purchase the initial 20 years of output of a proposed third-party solar generation facility, resell the majority of the power as renewable energy to two large industrial customers and use the remaining power for other customers.

Once the announced transactions are completed, PPL's overall carbon transition risk will higher than its historical profile but the company should still be strongly positioned for the carbon transition.

Exhibit 9
PPL Generation Mix (MW)





Source: Company Reports

PPL has enhanced transparency and disclosure, especially related to its environmental risks, over the last three years. The company published a 2019 sustainability report, has set a more aggressive carbon reduction goal of at least 80% from 2010 levels by 2050 and has accelerated its previous 70% goal by 10 years to 2040. It also reiterated the assessment outcome when considering a two-degree scenario analysis based on the recommendations of the Task Force on Climate Related Financial Disclosure (TCFD). Under these carbon regulation policy scenarios, PPL's analysis indicated that the CO_2 emissions from the company's Kentucky utility generation assets would be reduced 45-90% from 2005 levels by 2050.

Social

Social risks are primarily related to PPL's customer and regulatory relations as well as demographic and societal trends. PPL's regulatory environment, as well as its interaction with the commission,s are important in considering the companies' social risk. Also, the safety and reliability of its operations are important social considerations. Given developments related to the COVID-19 pandemic, there is a possibility of increasing social risk as the affordability of the utility bill and prolonged recessionary impact could have a negative impact on PPL.

Governance

In general, we view the corporate governance and financial policy of PPL to be balanced. The company has faced a unique set of additional governance and financial risks, including meaningful foreign currency exchange risk, due to having utility operations in the UK. However, we expect these risks to be reduced once PPL completes its divestiture of the UK assets. We note that a stable financial position is an important characteristic for managing environmental and social risks.

Liquidity analysis

We expect PPL to maintain a strong liquidity profile over the next 12 months, including receiving approximately $6.4 billion net cash proceeds from the recently announced transactions. The company plans to use some of the proceeds to strengthen its balance sheet before contemplating additional investment opportunities.

Although PPL does not have a short-term rating, PPL issues short-term debt through its financing subsidiary PPL Capital Funding, Inc. The borrowings at PPL Capital Funding are unconditionally guaranteed by PPL and PPL Capital Funding's short-term rating is Prime-2.

As of 31 December 2020, PPL had $708 million in cash and cash equivalents on hand. In addition to the significant amount of cash, PPL's liquidity is supported by stable cash flow generated from its seven utility subsidiaries.

At the parent level, PPL maintains a $1.45 billion syndicated credit facility expiring in January 2024. Drawings under this revolving credit facility are not subject to a material adverse change clause. PPL Capital Funding has a commercial paper program of $1.5 billion to provide additional short-term financing. Additionally, PPL maintains a $50 million committed and $50 million uncommitted bilateral credit facility due in March 2022. In March and April 2020, PPL added $400 million of term loan credit facilities at PPL Capital Funding, of which $300 million matures at the end of this month and $100 million matures in March 2022. As of 31 December 2020, PPL had $417 million letters of credit and commercial paper outstanding.

Including the parent company facility, PPL had approximately $3.5 billion of consolidated bilateral and syndicated credit facilities as of 31 December 2020 in the US, with total available capacity of about $2.2 billion. WPD maintains a separate external source of liquidity with a £1.2 billion credit facility, of which £780 million was unused at the end of the same period.

Exhibit 10
Consolidated revolver availability as of 31 December 2020

Company	Capacity	Borrowed	LP and CP Outstanding	Total Use as % of Capacity	Capacity Available
PPL	$1,950	$400	$417	42%	$1,133
PPLEU	$650	-	$1	0%	$649
LG&E	$500	-	$262	52%	$238
KU	$400	-	$203	51%	$197
Total US	**$3,500**	**$400**	**$883**	**37%**	**$2,217**
WPD	£210	£187	-	89%	£23
WPD (South West)	£220	£50	-	23%	£170
WPD (South Wales)	£125	-	-	0%	£125
WPD (East Midlands	£250	-	-	0%	£250
WPD (West Midlands)	£250	£74	-	30%	£176
Uncommitted Credit Facility	£100	£60	£4	64%	£36
Total UK	**£1,155**	**£371**	**£4**	**32%**	**£780**

Source: PPL Corporation SEC Filings

As of year end 2020, PPL generated approximately $3.1 billion of cash flow from operations, spent about $3.3 billion on capital investments and paid $1.3 billion in dividends resulting in negative free cash flow of approximately $1.4 billion. Due to the high level of planned capital investments, we anticipate PPL to continue to generate negative free cash flow over the next 12 months.

Structural considerations

PPL's holding company debt as a percentage of total consolidated debt is approximately 35%, which leads to material structural subordination and a relatively wide differential between the credit quality of PPL and its operating subsidiaries. For calculation purposes, the intermediate holding company debt at LKE and WPD is included in parent level debt. Of the approximate $24.8 billion of consolidated reported debt as of year-end 2020, about $8 billion is issued at the parent level. Going forward, the company targets parent debt to be below 25%.

Rating methodology and scorecard factors

Moody's currently evaluates PPL's financial performance relative to the low-risk grid under the Regulated Electric and Gas Utilities rating methodology published in June 2017. After the sale of WPD is completed, we will be evaluating PPL's financial performance under the standard grid.

Exhibit 11
Rating Factors
PPL Corporation

Regulated Electric and Gas Utilities Industry [1][2]	Current FY 12/31/2020		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	Aa	Aa	A	A
b) Consistency and Predictability of Regulation	Aa	Aa	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.1x	Baa	4.5x - 5.5x	A
b) CFO pre-WC / Debt (3 Year Avg)	12.9%	Baa	16% - 18%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	7.8%	Baa	10% - 13%	Baa
d) Debt / Capitalization (3 Year Avg)	59.6%	Ba	47% - 50%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching	-2	-2	-1	-1
a) Scorecard-Indicated Outcome		Baa2		Baa1
b) Actual Rating Assigned		Baa2		Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 12/31/2020;
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Appendix

Exhibit 12

Cash Flow and Credit Metrics [1]

CF Metrics	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20
As Adjusted					
FFO	**3,520**	**3,102**	**3,049**	**3,201**	**3,363**
+/- Other	-245	-104	-49	-203	-147
CFO Pre-WC	**3,275**	**2,998**	**3,000**	**2,998**	**3,216**
+/- ΔWC	-25	-34	140	-210	-103
CFO	**3,250**	**2,964**	**3,140**	**2,788**	**3,113**
- Div	1,045	1,084	1,146	1,204	1,285
- Capex	2,999	3,172	3,275	3,112	3,276
FCF	**-794**	**-1,291**	**-1,281**	**-1,529**	**-1,448**
(CFO Pre-W/C) / Debt	16.2%	13.5%	13.1%	12.7%	12.9%
(CFO Pre-W/C - Dividends) / Debt	11.0%	8.6%	8.1%	7.6%	7.8%
FFO / Debt	17.4%	14.0%	13.3%	13.5%	13.5%
RCF / Debt	12.2%	9.1%	8.3%	8.4%	8.4%
Revenue	7,517	7,447	7,785	7,769	7,607
Interest Expense	928	931	992	1,011	1,010
Net Income	1,789	1,016	1,135	1,475	1,285
Total Assets	38,515	41,659	43,576	45,680	48,116
Total Liabilities	28,384	30,774	31,798	32,578	34,511
Total Equity	10,132	10,886	11,779	13,103	13,606

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months
Source: Moody's Financial Metrics

Exhibit 13

Peer Comparison Table [1]

	PPL Corporation Baa2 (Positive)			National Grid plc Baa1 (Negative)			Duke Energy Corporation Baa1 (Rating(s) Under Review)			Southern Company (The) Baa2 (Stable)			Dominion Energy, Inc. Baa2 (Stable)		
(In US millions)	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Mar-19	FYE Mar-20	LTM Sep-20	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-19	FYE Dec-19	FYE Dec-20	FYE Dec-18	FYE Dec-19	FYE Dec-20
Revenue	7,785	7,769	7,607	19,611	18,491	18,857	24,521	25,079	23,868	23,495	21,419	20,375	13,366	14,401	14,172
CFO Pre-W/C	3,000	2,998	3,216	4,875	4,540	4,715	7,907	9,235	9,407	7,278	7,358	7,828	5,104	5,799	5,247
Total Debt	22,871	23,632	24,868	36,751	37,501	40,624	57,787	62,423	63,702	48,174	48,105	50,539	36,852	35,060	39,347
CFO Pre-W/C + Interest / Interest	4.0x	4.0x	4.2x	4.4x	4.1x	4.5x	4.4x	4.7x	5.1x	4.9x	5.1x	5.2x	4.0x	4.5x	4.3x
CFO Pre-W/C / Debt	13.1%	12.7%	12.9%	13.2%	11.8%	11.8%	13.7%	14.8%	14.8%	15.1%	15.3%	15.5%	13.8%	16.5%	13.3%
CFO Pre-W/C – Dividends / Debt	8.1%	7.6%	7.8%	8.9%	8.7%	7.2%	9.4%	10.6%	10.4%	14.9%	9.7%	10.2%	7.8%	8.0%	6.1%
Debt / Capitalization	60.9%	59.2%	59.0%	53.8%	55.0%	57.3%	52.9%	52.9%	52.5%	56.7%	53.8%	54.3%	56.7%	46.7%	55.2%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade
Source: Moody's Financial Metrics

Ratings

Exhibit 14

Category	Moody's Rating
PPL CORPORATION	
Outlook	Positive
Issuer Rating	Baa2
WESTERN POWER DISTRIB (EAST MIDLANDS) PLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
WESTERN POWER DISTRIB (WEST MIDLANDS) PLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
PPL CAPITAL FUNDING, INC.	
Outlook	Positive
Bkd Sr Unsec Bank Credit Facility	Baa2
Bkd Senior Unsecured	Baa2
Bkd Jr Subordinate	Baa3
Bkd Commercial Paper	P-2
WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC	
Outlook	Stable
Issuer Rating -Dom Curr	Baa1
Senior Unsecured -Dom Curr	Baa1
PPL ELECTRIC UTILITIES CORPORATION	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Commercial Paper	P-2
KENTUCKY UTILITIES CO.	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Bkd LT IRB/PC	A1
Commercial Paper	P-2
Bkd Other Short Term	P-2
LOUISVILLE GAS & ELECTRIC COMPANY	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Bkd LT IRB/PC	A1
Commercial Paper	P-2
Bkd Other Short Term	P-2
LG&E AND KU ENERGY LLC	
Outlook	Stable
Issuer Rating	Baa1

Senior Unsecured	Baa1

Source: Moody's Investors Service

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CREDIT OPINION
24 May 2020

Update

Rate this Research

RATINGS

PPL Corporation

Domicile	Allentown, Pennsylvania, United States
Long Term Rating	Baa2
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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PPL Corporation

Update to credit analysis following rating affirmation

Summary

PPL Corporation's (PPL) credit is supported by the low business risk profile of its US and UK regulated utilities and their credit supportive regulatory environments. As a fully regulated utility holding company, PPL generates approximately 70% of its earnings and cash flow from a transmission and distribution (T&D) and networks platform in Pennsylvania and the UK. The remaining 30% comes from its vertically integrated utility operations in Kentucky, which includes 7.6 GW of primarily coal-fired power generation. Due to its high reliance on coal as fuel for power generation, these Kentucky utility subsidiaries carry a higher level of carbon transition risk.

PPL's utilities provide good earnings and cash flow visibility. The regulatory environment in both Pennsylvania and Kentucky is generally credit supportive and PPL's utility subsidiaries are able to produce stable credit metrics. Furthermore, the UK regulatory environment is one of the most transparent and predictable globally but has lower authorized returns.

PPL has substantial leverage at the UK intermediate holding company and large capital investment programs at all of its utility subsidiaries. This results in significant negative free cash flow. PPL also has foreign currency exchange exposure due to its operations in the UK. We expect PPL's ratio of cash flow from operations before changes in working capital (CFO pre-WC) to debt to range around 13% over the next two years.

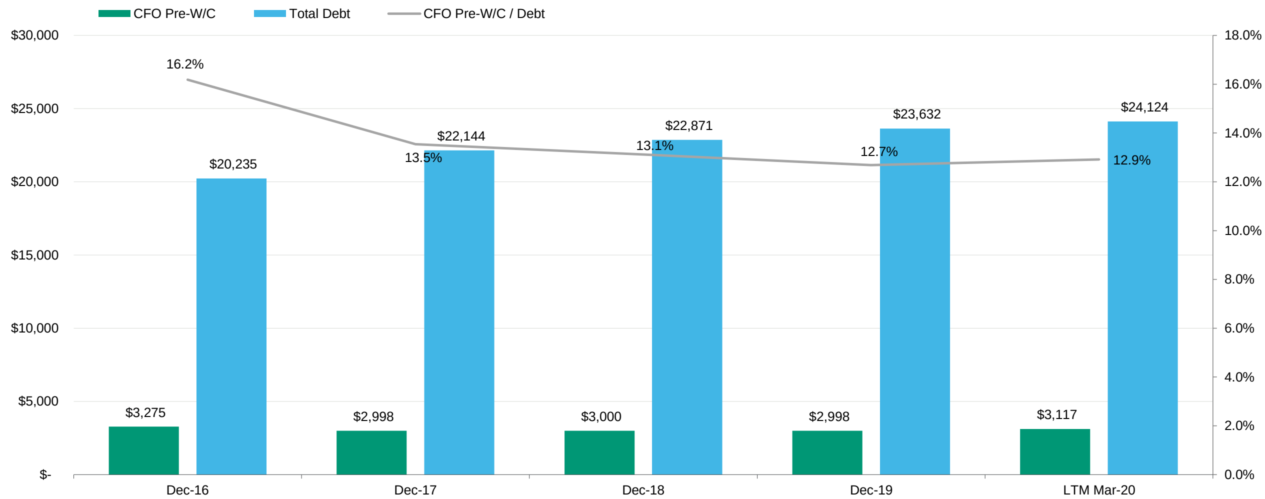
Recent developments

The economic costs of the coronavirus crisis amid the near shutdown of the global economy are accumulating rapidly. However, the US utility sector is more insulated from these risks than the hardest hit sectors, such as leisure, hospitality, travel and retail, due to its legal monopoly as an essential public and economic service. However, there is a possibility that broader political intervention becomes credit negative, if downside risks are realized, since high unemployment levels make rate increases less politically palatable.

We expect PPL and its utilities to be resilient to these recessionary pressures. In the UK, PPL's utility subsidiaries have a decoupling mechanism which allows them to recover the revenue loss due to lower customer usage albeit with a two-year lag. About half of PPL's Pennsylvania utility's rates are for transmission, which is not directly impacted by the decline in customer usage. Also, the near-term impact of the coronavirus on its overall distribution operations was not significant because an increase in residential sales somewhat offset the decrease in commercial and industrial customer sales. In Kentucky, the impact of the coronavirus has also not been severe.

On 20 May, we affirmed the ratings of PPL and its guaranteed financing subsidiary, PPL Capital Funding, Inc. The affirmation of the rating reflects our expectation that the credit profile will remain relatively stable over the next 2-3 years. We also affirmed the rating of PPL Electric Utilities Corporation (PPLEU), its Pennsylvania utility.

Exhibit 1
Historical CFO Pre-WC, Total Debt and CFO Pre-WC to Debt ($MM)



Source: Moody's Financial Metrics

Credit strengths

» Stable regulated utility operations

» Credit supportive regulatory environments in the US and UK

» Diverse rate base of $16.8 billion in the US and $10.3 billion in the UK

Credit challenges

» Large capital investment programs of operating subsidiaries

» Relatively high level of holding company debt

» Foreign currency exchange exposure

» Elevated carbon transition risk at its Kentucky subsidiaries

Rating outlook

PPL's stable outlook reflects our view that its business risk profile is lower than many of its US peers due to its ownership of distribution network operators (DNOs) in the United Kingdom where there is a transparent multi-year regulatory framework. Also, it incorporates our expectation that PPL will produce consistent financial metrics, including a CFO pre-WC to debt ratio in the 12%-14% range over the next 2-3 years, based on its stable regulatory utility operations.

Factors that could lead to an upgrade

PPL's ratings could be upgraded if its consolidated financial metrics improve such that its CFO pre-WC to debt ratio is above 16% on a sustained basis. Also, if the percentage of PPL's parent level debt is reduced to below 20% of consolidated debt, an upgrade could be possible.

Factors that could lead to a downgrade

A rating downgrade could be considered if PPL's overall financial metrics deteriorate, including CFO pre-WC to debt falling below 12% on a sustained basis. A significant increase in the level of parent debt would increase pressure on PPL's overall credit profile, potentially leading to a rating downgrade. Furthermore, a rating downgrade could be possible if the regulatory environments for its utilities become contentious, increasing regulatory lag or reducing their ability to earn appropriate returns on their investments.

Key indicators

Exhibit 2

PPL Corporation [1]

	Dec-16	Dec-17	Dec-18	Dec-19	LTM Mar-20
CFO Pre-W/C + Interest / Interest	4.5x	4.2x	4.0x	4.0x	4.1x
CFO Pre-W/C / Debt	16.2%	13.5%	13.1%	12.7%	12.9%
CFO Pre-W/C – Dividends / Debt	11.0%	8.6%	8.1%	7.6%	7.8%
Debt / Capitalization	58.8%	62.2%	60.9%	59.2%	59.1%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Profile

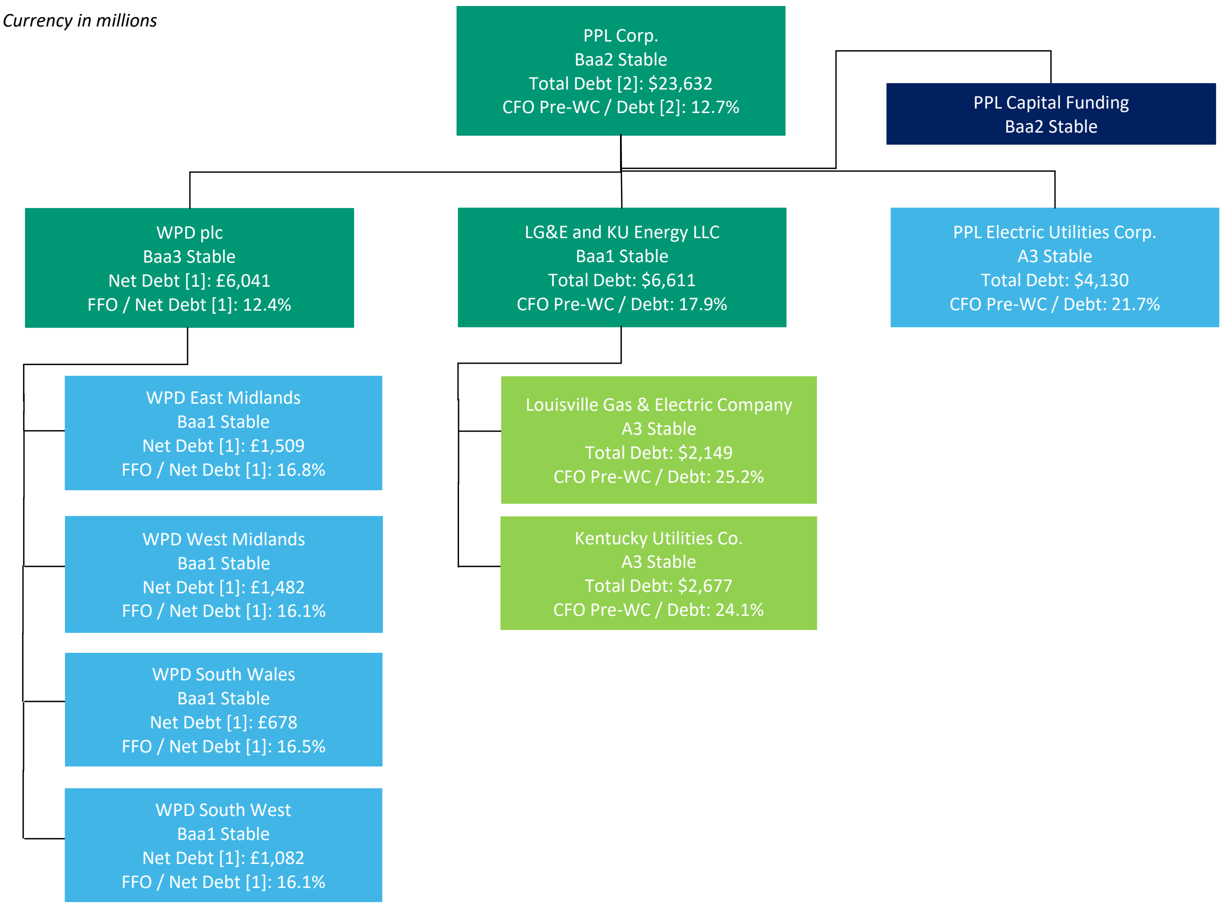
PPL Corporation is a utility holding company headquartered in Allentown, PA with three regulated jurisdictions: the United Kingdom, Kentucky, and Pennsylvania. Its UK regulated operations include Western Power Distribution Plc (WPD, Baa3 stable), a pure wires only distribution company with no retail exposure. Kentucky regulated utilities include Louisville Gas & Electric Company (LG&E, A3 stable) and Kentucky Utilities Company (KU, A3 stable), which operate under a traditional integrated utility model. The two Kentucky utilities are held under an intermediate holding company, LG&E and KU Energy LLC (LKE, Baa1 stable). PPL's Pennsylvania operations are comprised of PPL Electric Utilities Corporation (PPLEU, A3 stable), an electric transmission business mostly regulated by the Federal Energy Regulatory Commission (FERC), and an electric distribution company regulated by the Pennsylvania Public Utility Commission (PAPUC). PPL, through its Kentucky operating subsidiaries, controls or owns about 7,561 MW of fossil-fired generating capacity in the US and sells electricity and natural gas to about 10.6 million customers in the US and UK.

Exhibit 3

PPL Corporation's organizational structure [2]

As of 31 December 2019

Currency in millions



[1] As of 3/31/2019; CFO Pre-WC to Debt is not a key metric we use for WPD and subsidiaries. WPD and subsidiaries are assessed under the Regulated Electric and Gas Networks Industry Grid

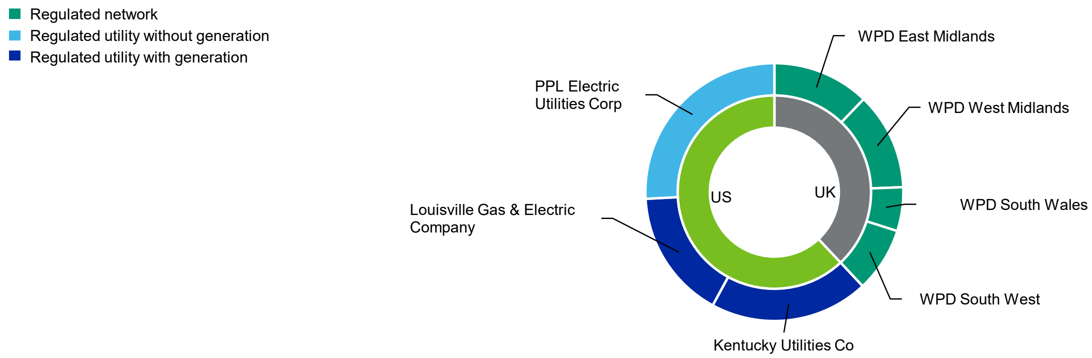
[2] Metrics are based on 'adjusted' financial data and incorporate Moody's Global Standard Adjustments for non-financial corporations

Source: Moody's Financial Metrics, Company reports

Exhibit 4

Unique mix of businesses which include utility operations in the UK

US and UK Rate Base



Source: Company Reports

Detailed credit considerations

Stable and consistent earnings and cash flow generated by regulated utilities

PPL is a regulated utility holding company that has low business risk compared to many of its peers because all of its subsidiaries are regulated utilities and due to regulatory environments that are more transparent, particularly in the UK. PPL has an electric transmission and distribution (T&D) utility in Pennsylvania, two vertically integrated subsidiaries located in Kentucky, and four electricity distribution network subsidiaries in the UK. Approximately 50%-60% of PPL's earnings are produced by its UK based distribution operations, which are consolidated under the intermediate holding company WPD. The UK operations also provide regulatory and operational diversity to PPL's overall portfolio and mitigate higher risk associated with its Kentucky generation portfolio. The remaining earnings are produced in the US, about equally split between its two Kentucky utilities and the utility in Pennsylvania.

As a distribution network operator (DNO) in the UK, WPD's subsidiaries do not have any commodity production or procurement responsibilities, completely insulating the UK organization from commodity exposure. In comparison, PPLEU is a wires only utility that maintains some commodity exposure because it has provider of last resort (POLR) obligations. The risk associated with this exposure is minimal given the transparent purchased power cost pass-through mechanisms in place. PPLEU also enters into full requirements supply agreements to serve its POLR customers. PPL's Kentucky utilities have the most exposure to commodities because they own and operate generation assets to produce power for their customers. Although LG&E and KU have direct commodity exposure, Kentucky allows the cost of fuel to be recovered through a fuel adjustment clause within four months.

Exhibit 5

Overall regulatory environment for PPL is supportive

	Mechanisms	Allowed ROE
Pennsylvania	FERC Formula Rates, Distribution System Improvement Charge, Smart Meter Rider, Storm Cost Recovery, Alternative Ratemaking, Forward Test Year for distribution rate cases	11%[1]
Kentucky	Environmental Cost Recovery, Fuel Adjustment Clause, Gas Line Tracker, Forward Test Year for base rate cases, Gas Supply Clause, Demand Side Management	9.725%
United Kingdom	Real-time recovery of capex, Incentive revenues available for strong performance and innovation, Mechanism to retain 70% of cost efficiencies, Accelerated recovery of RAV	6.4%[2]

[1] Weighted average of distribution and transmission allowed ROE
[2] Approximately 9.4% including inflation of regulatory asset value
Source: Company Reports

Supportive regulatory environments in the US

The supportive regulatory environments in Kentucky and Pennsylvania result in stable and predictable earnings and cash flow generated from roughly $18 billion of combined rate base. The Kentucky Public Service Commission (KPSC) has approved various tracker mechanisms that provide timely recovery of costs outside of a general rate case. Some of the authorized tracker mechanisms include a Fuel Adjustment Clause (FAC), an Environmental Cost Recovery Surcharge (ECR), a Gas Supply Clause (GSC), a Gas Line Tracker (GLT), and a Demand-Side Management (DSM) Cost Recovery Mechanism. The Kentucky operating utilities do not have decoupling mechanisms in place, which subjects KU's and LG&E's revenue to some volatility. However, the impact on its revenue due to non-weather related demand fluctuations is minimized because of the DSM mechanism.

The outcome of KU and LG&E's latest rate case, which concluded in April 2019, was reasonable when it was settled for a combined rate increase of approximately $77 million. Also, the KPSC approved the termination of the Tax Cuts and Jobs Act (TCJA) bill credit mechanism, which was used to reduce both electric and gas rates to reflect the impact of the tax reform. With the new rates from the latest rate cases implemented, the termination was approved. This represented a total annual revenue increase of $114 million for KU and $73 million for LG&E, effective as of May 2019.

The regulatory framework provided by Pennsylvania and the FERC for PPLEU is more credit supportive compared to other states. In 2018, Pennsylvania enacted new legislation for alternative ratemaking for electric and water utilities. The legislation includes revenue decoupling, performance-based rate plans, formula rates, multi-year rate plans, and are similar to the ratemaking mechanisms in the UK. While it is unlikely that PPLEU will request any changes to its ratemaking framework until its next general rate case, this new legislation authorizing alternative ratemaking mechanisms in Pennsylvania is credit positive for both PPLEU and PPL. It will provide greater transparency and stability to their cash flow and earnings when applied.

We do not anticipate PPLEU will file its next rate case over the next 12-18 months. PPLEU's last general distribution rate case concluded in November 2015 when a settlement was reached and approved. The settlement authorized a $124 million electric distribution rate increase although it did not specify other factors such as the allowed return on equity (ROE). In Feburary 2020, the PAPUC lowered the ROE for the Distribution System Infrastructure Charge (DSIC) by 10 basis points to 9.45%. Despite the decrease, we continue to view the mechanism to be credit supportive and expect PPLEU to continue to invest under this mechanism.

Relative to other electric utilities, a high percentage of PPLEU's rate base consists of FERC regulated transmission assets. As of year-end 2019, the rate base contribution from transmission was approximately 50% and is expected to grow to about 55% by 2023. We consider FERC regulation to be more predictable and credit supportive due to the formulaic nature of its rate mechanisms. Based on the formula rate mechanism, PPLEU is currently authorized to earn an 11.68% ROE on its existing transmission assets, while the $650 million Susquehanna-Roseland transmission project is authorized to earn a 12.93% ROE due to incentive based rate treatments. Since the rate setting process is not contested before state commissions and given its design to ensure timely recovery, we generally consider revenue collected under this regulatory framework to be more stable and predictable than state regulated utility businesses.

Transparent but developing regulatory environment in the UK

Globally, the UK regulatory environment is among the strongest and most transparent. PPL's UK subsidiary WPD owns four electricity distribution networks with a track record of excellent operational performance, as well as a first-tier efficiency ranking relative to their peers, according to the metrics established by Ofgem (Office of Gas and Electricity Markets), the primary regulatory body for the UK electric and gas utilities. As the top performer among their DNO peers, the WPD utilities have benefitted from performance-based rate making mechanisms, with incentive bonus payments annually and a higher authorized ROE compared to their UK peers. For the 2019/2020 regulatory year, WPD's performance included $94 million of incentive revenues, which will be collected in 2020/2021 rates. Additionally, as the only DNO to qualify for fast-track incentives, WPD companies are allowed to retain 70% of realized cost efficiencies.

Ofgem uses the RIIO (Revenue = Incentive + Innovation + Outputs) model. The reviews of RIIO determine the allowed revenues for all electricity distribution companies. The first phase of the rate review set the revenues operators are allowed to earn over the eight year period from April 2015 to March 2023. We expect PPL's UK operations to provide a steady stream of dividends to PPL, supporting PPL's overall credit quality through 2023.

Although the RIIO framework itself continues to be transparent, we expect the upcoming RIIO-2 framework for electric distribution to limit the ability to outperform and earn financial incentives. In May 2019, Ofgem proposed that allowed returns should be based on a cost of equity of 4.8%, below the 6.4% used in WPD's current nominal returns. Ofgem's proposals for the RIIO-2 framework would make systematic outperformances less likely, in our view, and the reduction in expected returns is credit negative for all UK networks. PPL expects significant electricity distribution network investment will be required in RIIO-2 to reach the UK's carbon reduction targets and that Ofgem will need to design a framework that effectively incentivizes delivery of those objectives.

We expect the developments around the RIIO-2 framework and implementation to continue over the next 24 months. The sector specific methodology consultation is expected in June 2020 about six months after Ofgem published its framework decision. The decision on the sector methodology is expected in November 2020 and the DNOs, including WPD's utilities, will submit their business plan in 2021.

Exhibit 6
Western Power Distribution service area

Source: Energy Networks Association

Exhibit 7
Price control overview

					GB Electricity Distribution
Regulator / Price Control					Ofgem / RIIO-ED1
Term of price control					Apr 2015 - Mar 2023
Allowed return on RAV (vanilla real)					3.27% (2019-20) 2.95% (2020-21)
Regulated Businesses	EMID	WMID	SWALES	SWEST	Group
Company's forecast RoRE over control	8.4%	7.7%	8.7%	9.3%	8.4%
Regulated Asset Value (Ofgem) at March 2020	£2.53 bn	£2.54 bn	£1.19 bn	£1.76 bn	£8.02 bn

Note: 6.4% was the assumed return on regulatory equity (RoRE) for WPD's DNOs
Source: Ofgem; WPD

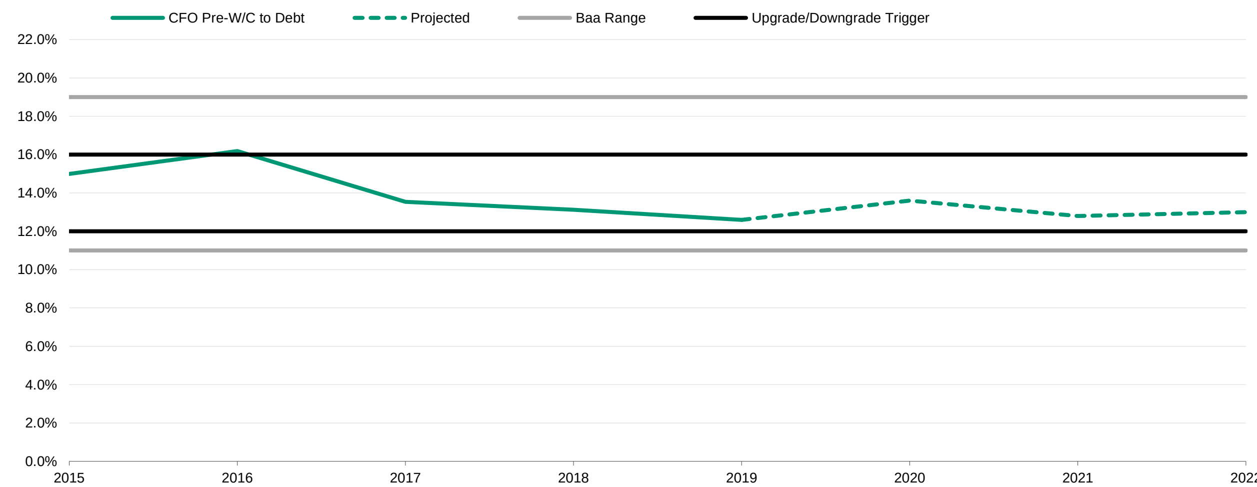
Equity issuance helps offset weaker financial metrics and relatively high parent debt

At the latest twelve months period ending 31 March 2020, PPL's CFO pre-WC to debt was 12.9% and retained cash flow to debt was 7.8%. At the end of 2018, PPL recorded slightly higher metrics of 13.1% and 8.1%, respectively. This decline was expected due to elevated capital investment programs being funded primarily with debt as well as the negative impact from tax reform. However, prudent recovery mechanisms that are in place should result in more timely recovery of investments and help PPL maintain key metrics in our expected ranges. Furthermore, its forward equity sale announced in 2018, totaling approximately $1.7 billion, also helped to mitigate the pressure on its cash flow to debt metric. In 2018 approximately $520 million of equity was issued and the remaining $1.1 billion was settled in November 2019. With the remaining equity, we estimate PPL's year-to-date CFO pre-WC to debt to be above 12%.

Exhibit 8

CFO pre-WC to debt has declined from historical levels, but remains appropriate for its credit profile

PPL's CFO pre-WC to debt ratio, with our projections through 2022



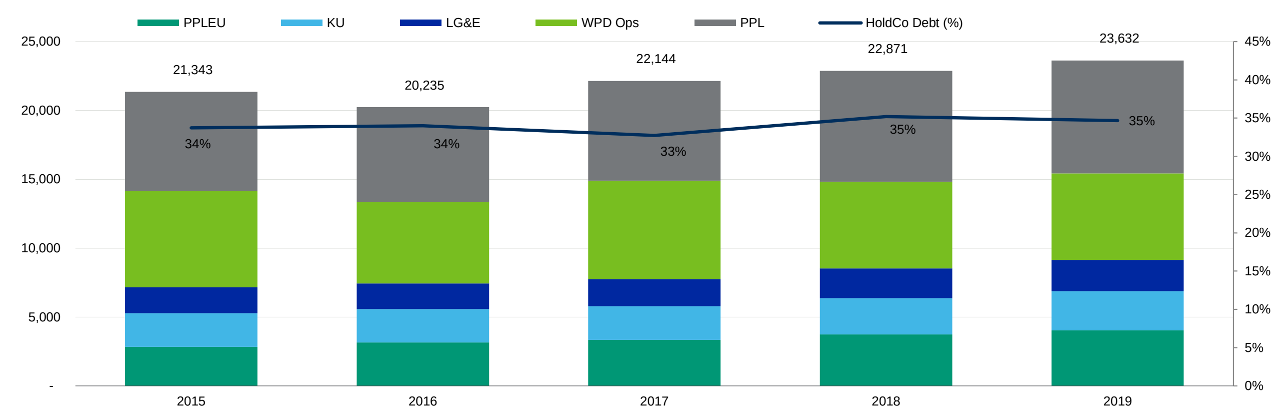
Source: Moody's Financial Metrics and Estimates

With approximately $8.2 billion of holding company debt as of year-end 2019, the ratio of holding company debt to total consolidated debt is roughly 35%. Holding company debt at these levels generally leads to a wider differential between the parent company and its operating subsidiary credit quality. PPL's credit rating, including its high parent debt level, is about two notches lower than the average credit rating of its US regulated subsidiaries.

Exhibit 9

PPL maintains a relatively high parent debt level

Composition of PPL debt, 2015-2019

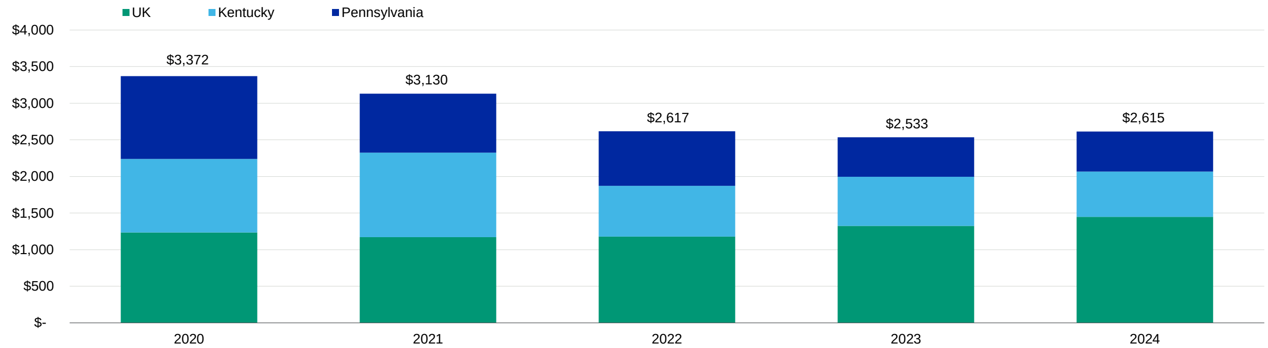


Source: Moody's Financial Metrics

Large, but declining, capital investment programs

Over the next few years, PPL's large capital investment plan is expected to decline. PPL plans to invest approximately $14 billion over the next five year horizon with the projected breakdown of capital investments by region is as follows: $5.9 billion in the UK, $4.1 billion in Kentucky, and $3.8 billion in Pennsylvania. The company's planned capital investment represents about 49% of the company's total rate base, which is approximately $28 billion. Although PPL plans to decrease its overall capital investment over time, we expect the company to continue to invest in its system, at least at a level to maintain its rate base.

Exhibit 10
Projected Capital Investment Plan for PPL's US and UK Regulated Utilities
($MM)



Source: Company Reports, 2019 10-K Filing

A significant amount of these investments will be recovered through regulatory recovery mechanisms outside of the traditional base rate case proceedings. For instance in Kentucky, we expect regulatory lag related to KU's large capital investment plan to be somewhat moderated by the supportive regulatory environment, especially regarding environmental expenditures through the ECR. The KPSC is also authorized to grant a return on construction work in progress (CWIP) in rate case proceedings, a credit positive. In Pennsylvania, the alternative ratemaking mechanisms, FERC transmission formula rate, DSIC mechanism and other recovery mechanisms are in place to reduce regulatory lag and provide for a more timely recovery of costs and a predictable return on investments. Together these mechanisms allow PPL to receive timely returns for approximately 80% of its investment.

Additional risk to managing foreign currency exchange exposure

With a significant portion of earnings and cash flow generated in the UK, PPL must manage its foreign currency risk closely. This is a risk unique to PPL compared to its US peers. As of March 2020, PPL's foreign exchange exposure is 86% and 8% hedged for 2020 and 2021 at an average rate of $1.55 per GBP and $1.32 per GBP, respectively. As of early March 2020, PPL had not hedged its 2022 currency exposure. While we expect PPL to maintain its forward hedging program, it is likely that PPL will remain opportunistic and layer on additional hedges as a result of the continued weakness of the GBP.

Over the next three years, we expect PPL to generate about 34% of its cash flow from its UK operations while about 30% of PPL's debt is either denominated in GBP or has been swapped into GBP. As a result, we do not expect GBP depreciation to heavily influence the CFO pre-WC to debt metric. In addition, if depreciation of the GBP against other currencies leads to higher import prices in the UK, inflation as measured by the Retail Prices Index (RPI) could increase modestly. Since WPD's revenues and regulatory assets are adjusted annually by the RPI, this could lead to higher earning in GBP terms.

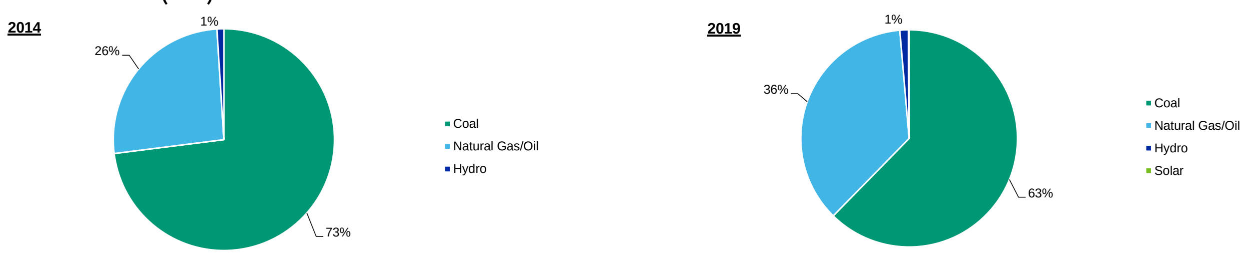
ESG considerations

Overall, PPL has moderate carbon transition risk within the regulated utility sector. The higher carbon transition risk from its vertically integrated utilities in Kentucky is offset by the low carbon transition risk from the wires only utility operations in Pennsylvania and the UK.

Fuel concentration in coal is typically considered to be a significant credit negative from an environmental standpoint. However, PPL's high reliance on coal in Kentucky is not as negative as some other utilities because the state is very supportive of the coal industry. This support is evidenced by the ECR, which provides the company with credit supportive cost recovery provisions for its investments in coal-related environmental expenditures. We expect Kentucky to continue to support the use of coal and to provide avenues for PPL to recover costs associated with its coal-fired power plants or with environmental compliance. However, PPL is exposed to the risk of potentially needing to make a more rapid transition to clean energy in Kentucky in the future if carbon policies change.

PPL has total generation capacity in the US of 7.6 GW, with 4.7 GW or 62% being coal-fired, which provides the majority (approximately 80%) of its electricity generation output. The remaining 20% of the electricity generating output is comprised mainly of gas/oil-fired, hydro, and solar facilities. Over the last two years, PPL's fuel mix improved with the addition of the 660-MW gas-fired combined-cycle power plant at Cane Run, replacing older retired coal-fired power plants Tyrone and Green River as well as the Cane Run coal plant.

Exhibit 11
PPL Generation Mix (MW)



Source: Company Reports

PPL has enhanced transparency and disclosure, especially related to its environmental risks, over the last three years. PPL has published a 2019 sustainability report and has also set a more aggressive carbon reduction goal of at least 80% from 2010 levels by 2050 and has accelerated its previous 70% goal by 10 years to 2040. It also reiterated the assessment outcome for considering a two-degree scenario analysis based on the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD). Under these carbon regulation policy scenarios, PPL's analysis indicated that the CO2 emissions from the company's Kentucky utilities' generation assets would be reduced 45-90% from 2005 levels by 2050.

As a holding company of regulated utilities, customer relations and regulatory environment are important social factors. Also, the safety and reliability of utility services are extremely important and is a key focus of PPL's utilities.

In general, we view the corporate governance and financial policy of PPL to be balanced. PPL faces a unique set of additional governance and financial risks, including meaningful foreign currency exchange risk, due to having utility operations in the UK. Given current market conditions, the hedging level beyond 2020 is below the company's typical level. While we do not believe this is a permanent change in PPL's overall governance and financial policy, it is not consistent with the company's historical hedging practice.

Liquidity analysis

We expect PPL to maintain an adequate liquidity profile over the next 12-18 months. Although PPL does not have a short-term rating, PPL issues short-term debt through its financing subsidiary PPL Capital Funding, Inc. The borrowings at PPL Capital Funding are unconditionally guaranteed by PPL.

As of the last twelve months (LTM) ending 31 March 2020, PPL had $915 million in cash and cash equivalents. In addition to the significant amount of cash, PPL's liquidity is supported by stable cash flow generated from its seven low risk utility subsidiaries.

At the parent level, PPL maintains a $1.45 billion syndicated credit facility expiring in January 2024. Drawings under this revolving credit facility are not subject to a material adverse change clause. PPL Capital Funding has a commercial paper program of $1.5 billion to provide additional short-term financing. Additionally, PPL maintains a $50 million committed and $50 million uncommitted bilateral credit facility due in March 2021, which has $15 million letters of credit outstanding under the uncommitted facility as of 31 March 2020. In March and April 2020, PPL added $400 million of term loan credit facilities at PPL Capital Funding ($300 million due 2021 and $100 million due in 2022).

PPL had approximately $3.1 billion of consolidated bilateral and syndicated credit facilities as of 31 March 2020 in the US. As of 31 March 2020, the total available capacity was about $1.9 billion. WPD maintains a separate external source of liquidity with a £1.2 billion credit facility, of which £943 million was unused at the end of the same period.

Exhibit 12
Consolidated revolver availability as of 31 March 2020

Company		Capacity		Borrowed		LP and CP Outstanding	Total Use as % of Capacity		Capacity Available
PPL	$	1,550	$	659	$	195	55%	$	696
PPLEU	$	650	$	85	$	1	13%	$	564
LG&E	$	500	$	100	$	59	32%	$	341
KU	$	400	$	100	$	44	36%	$	256
Total US	**$**	**3,100**	**$**	**944**	**$**	**299**	**40%**	**$**	**1,857**
WPD	£	210	£	156	£	-	74%	£	56
WPD (South West)	£	245	£	-	£	-	0%	£	245
WPD (East Midlands)	£	300	£	-	£	-	0%	£	300
WPD (West Midlands)	£	300	£	54	£	-	18%	£	246
Uncommitted Credit Facility	£	100	£	-	£	4	4%	£	96
Total UK	**£**	**1,155**	**£**	**210**	**£**	**4**	**19%**	**£**	**943**

Source: PPL Corporation SEC Filings

Over the LTM ending 31 March 2020, PPL generated approximately $3 billion of cash flow from operations, spent about $3.2 billion in capital investments and paid $1.2 billion in dividends resulting in free cash flow negative of approximately $1.4 billion. Due to the high level of planned capital investments, we expect PPL maintain negative free cash flow over the next 12-18 months.

Year-to-date, PPL Capital Funding issued $1 billion of 10-year senior notes to pre-fund a $475 million maturity in November 2020 and to increase liquidity support. They are also expected to be used to pay down short-term borrowings at the operating company level.

Structural consideration

PPL's holding company debt as a percentage of total consolidated debt is approximately 35%, which leads to material structural subordination considerations and a wide notching differential between PPL and its operating subsidiaries. For calculation purposes, the intermediate holding company debt at LKE and WPD is included in the parent level debt. Of the approximate $23.8 billion of consolidated debt as of year-end 2019, about $8.2 billion is issued at the parent level.

Rating methodology and scorecard factors

Moody's evaluates PPL's financial performance relative to the low-risk grid under the Regulated Electric and Gas Utilities rating methodology published in June 2017.

Exhibit 13
Rating Factors
PPL Corporation

Regulated Electric and Gas Utilities Industry Scorecard [1][2]	Current LTM 3/31/2020		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	Aa	Aa	Aa	Aa
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.2x	Baa	3.5x - 4x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	13.4%	Baa	12% - 14%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	8.4%	Baa	7% - 8%	Baa
d) Debt / Capitalization (3 Year Avg)	60.7%	Ba	55% - 60%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching		-2		-2
a) Scorecard-Indicated Outcome		Baa2		Baa2
b) Actual Rating Assigned		Baa2		Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 03/31/2020 (L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Appendix

Exhibit 14

Cash Flow and Credit Metrics [1]

CF Metrics	Dec-16	Dec-17	Dec-18	Dec-19	LTM Mar-20
As Adjusted					
EBITDA	**4,450**	**3,886**	**4,215**	**4,138**	**4,261**
FFO	**3,520**	**3,102**	**3,049**	**3,201**	**3,244**
+/- Other	(245)	(104)	(49)	(203)	(128)
CFO Pre-WC	**3,275**	**2,998**	**3,000**	**2,998**	**3,116**
+/- ΔWC	(25)	(34)	140	(210)	(112)
CFO	**3,250**	**2,964**	**3,140**	**2,788**	**3,004**
- Div	1,045	1,084	1,146	1,204	1,225
- Capex	2,999	3,172	3,275	3,112	3,210
FCF	**(794)**	**(1,291)**	**(1,281)**	**(1,529)**	**(1,430)**
(CFO Pre-W/C) / Debt	16.2%	13.5%	13.1%	12.7%	12.9%
(CFO Pre-W/C - Dividends) / Debt	11.0%	8.6%	8.1%	7.6%	7.8%
FFO / Debt	17.4%	14.0%	13.3%	13.5%	13.4%
RCF / Debt	12.2%	9.1%	8.3%	8.4%	8.4%
Revenue	7,517	7,447	7,785	7,769	7,744
Cost of Good Sold	1,528	1,497	1,526	1,419	1,304
Interest Expense	928	931	992	1,011	1,016
Net Income	1,917	1,140	1,840	1,758	1,846
Total Assets	38,515	41,659	43,576	45,680	46,328
Total Liabilities	28,384	30,774	31,798	32,578	32,976
Total Equity	10,132	10,886	11,779	13,103	13,353

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months
Source: Moody's Financial Metrics

Exhibit 15

Peer Comparison Table [1]

	PPL Corporation Baa2 Stable			National Grid plc Baa1 Stable			Duke Energy Corporation Baa1 Stable			Southern Company (The) Baa2 Stable			Dominion Energy, Inc. Baa2 Stable		
	FYE	FYE	LTM	FYE	FYE	LTM	FYE	FYE	LTM	FYE	FYE	FYE	FYE	FYE	FYE
(in US millions)	Dec-18	Dec-19	Mar-20	Mar-17	Mar-18	Sept-19	Dec-18	Dec-19	Mar-20	Dec-17	Dec-18	Dec-19	Dec-17	Dec-18	Dec-19
Revenue	7,785	7,769	7,744	19,657	20,225	18,990	24,521	25,079	24,865	23,031	23,495	21,419	12,586	13,366	16,572
CFO Pre-W/C	3,000	2,998	3,116	6,167	4,946	4,532	7,907	9,235	9,529	7,242	7,278	7,360	4,655	5,104	6,278
Total Debt	22,871	23,632	24,124	36,085	35,662	37,549	57,787	62,423	67,232	51,802	48,174	48,105	38,825	36,852	40,725
CFO Pre-W/C / Debt	13.1%	12.7%	12.9%	16.3%	14.7%	11.6%	13.7%	14.8%	14.2%	14.0%	15.1%	15.3%	12.0%	13.8%	15.4%
CFO Pre-W/C – Dividends / Debt	8.1%	7.6%	7.8%	10.5%	8.6%	9.2%	9.4%	10.6%	10.2%	9.4%	14.9%	9.7%	6.9%	7.8%	8.0%
Debt / Capitalization	60.9%	59.2%	59.1%	52.8%	52.1%	56.0%	52.9%	52.9%	54.5%	60.6%	56.7%	53.8%	61.1%	56.7%	50.4%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade
Source: Moody's Financial Metrics

Ratings

Exhibit 16

Category	Moody's Rating
PPL CORPORATION	
Outlook	Stable
Issuer Rating	Baa2
WESTERN POWER DISTRIB (WEST MIDLANDS) PLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
WESTERN POWER DISTRIB (EAST MIDLANDS) PLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
PPL CAPITAL FUNDING, INC.	
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa2
Bkd Senior Unsecured	Baa2
Bkd Jr Subordinate	Baa3
Bkd Commercial Paper	P-2
WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa1
PPL ELECTRIC UTILITIES CORPORATION	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Commercial Paper	P-2
KENTUCKY UTILITIES CO.	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Bkd LT IRB/PC	A1
Commercial Paper	P-2
Bkd Other Short Term	P-2
LOUISVILLE GAS & ELECTRIC COMPANY	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Bkd LT IRB/PC	A1
Commercial Paper	P-2
Bkd Other Short Term	P-2
LG&E AND KU ENERGY LLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1

Source: Moody's Investors Service

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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CREDIT OPINION
19 November 2020

Update

Rate this Research

RATINGS

PPL Corporation

Domicile	Allentown, Pennsylvania, United States
Long Term Rating	Baa2
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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PPL Corporation

Update to credit analysis

Summary

PPL Corporation's (PPL) credit reflects its current position as a holding company of a transmission and distribution (T&D) utility in Pennsylvania, distribution network companies in the UK, as well as vertically-integrated electric utilities in Kentucky. PPL's business risk profile is relatively low based on its distribution network operations in the UK and the T&D utility operations in Pennsylvania with approximately 75% of PPL's cash flow and earnings generated by these operations. The remaining 25% comes from its operations in Kentucky and is more exposed to climate and carbon transition risk because of its heavy reliance on coal as a fuel for power generation.

PPL's utilities provide good earnings and cash flow visibility. The regulatory environment in both Pennsylvania and Kentucky is generally credit supportive and PPL's utility subsidiaries are able to produce stable credit metrics. Furthermore, the UK regulatory environment is one of the most transparent and predictable globally but has lower authorized returns than the US. PPL has substantial leverage at the UK intermediate holding company and large capital investment programs at all of its utility subsidiaries. This results in significant negative free cash flow. PPL also has foreign currency exchange exposure due to its operations in the UK. We expect PPL to produce a ratio of CFO pre-WC to debt in the 12%-14% range based on its current business mix.

Recent developments

In August 2020, PPL announced that it had initiated a process to sell its utility assets in the United Kingdom that have a total estimated rate base of around $10 billion and approximately $8 billion of debt. If PPL is successful in divesting its UK assets, we estimate its Kentucky operations will proportionally increase to more than half of rate base from around 37% currently. Due to their vertically integrated utility business model with coal as the primary fuel source for its generation in Kentucky, we would view PPL's overall business risk to be higher if the sale is completed. However, PPL stated it would target "mid-teens" cash flow to debt metric post the sale in order to maintain the current credit profile and might also consider reducing the parent debt level to strengthen its balance sheet.

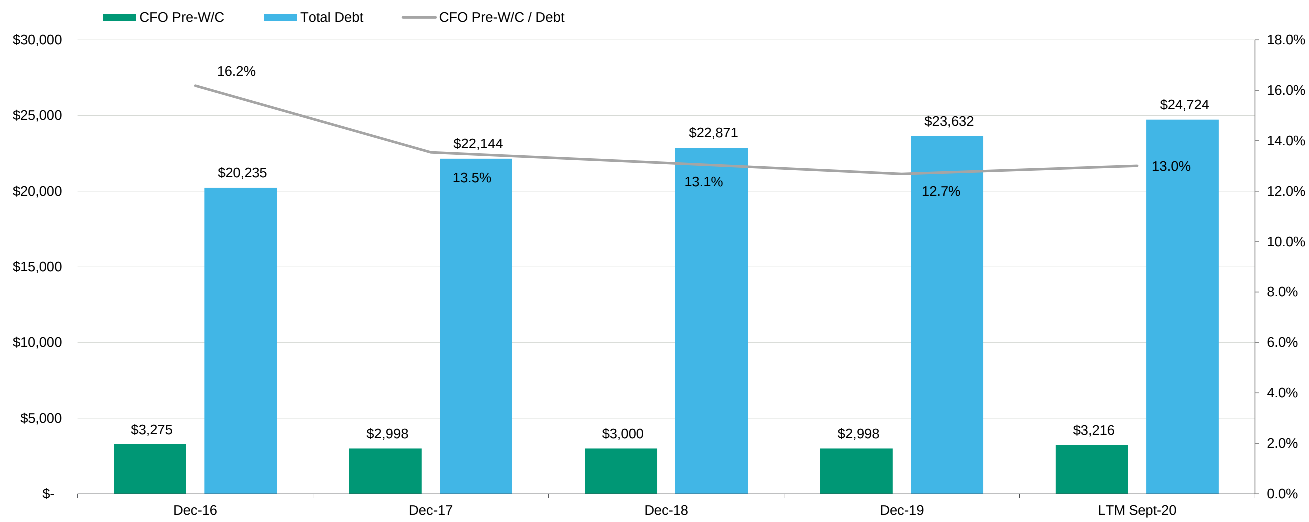
The rapid spread of the coronavirus outbreak, severe global economic shock, low oil prices and asset price volatility are creating a severe and extensive credit shock across many sectors,

This report was republished on 20 November 2020 with a factual correction in the US rate base figure.

regions and markets. The combined credit effects of these developments are unprecedented. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

We expect PPL to be relatively resilient to recessionary pressures related to the coronavirus because of its rate regulated business model and timely cost recovery mechanisms. Nevertheless, we are watching for electricity usage declines, utility bill payment delinquency, and the regulatory response to counter these effects on earnings and cash flow. We see these issues as temporary and not reflective of the core operations or long-term financial or credit profile of PPL.

Exhibit 1
Historical CFO Pre-WC, Total Debt and CFO Pre-WC to Debt ($MM)



Source: Moody's Financial Metrics

Credit strengths

» Adequate financial profile at utilities with transparent and predictable cash flows

» Credit supportive regulatory environments

» UK asset sale could improve balance sheet and reduce holding company debt

» Diverse rate base of $18 billion in the US and $10.3 billion in the UK

Credit challenges

» UK asset sale will increase business risk and lower regulatory and geographic diversity

» Large, but declining, capital investment programs of operating subsidiaries

» Relatively high level of holding company debt

» Moderate carbon transition risk at its Kentucky subsidiaries

Rating outlook

PPL's stable outlook reflects our view that the higher business risk that will result from the sale of its UK distribution network operators (DNOs) will be offset by an improvement in financial metrics, a stronger balance sheet and lower parent company debt. Also, it incorporates our expectation that PPL will generate a CFO pre-WC to debt ratio in the 12%-14% range before it completes the sale of the UK operations.

Factors that could lead to an upgrade

PPL's ratings could be upgraded if its consolidated financial metrics improve such that its CFO pre-WC to debt ratio is above 16% on a sustained basis. Also, if the percentage of PPL's parent level debt is reduced to below 20% of consolidated debt, an upgrade could be possible.

Factors that could lead to a downgrade

A rating downgrade could be considered if PPL's financial metrics deteriorate, including CFO pre-WC to debt falling below 12% on a sustained basis. If the percentage of parent debt increases significantly, pressuring on PPL's overall credit profile, a rating downgrade could be possible. Furthermore, if the regulatory environments for its utilities become contentious, increasing regulatory lag or reducing their ability to earn appropriate returns on their investments,

Key indicators

Exhibit 2

PPL Corporation [1]

	Dec-16	Dec-17	Dec-18	Dec-19	LTM Sept-20
CFO Pre-W/C + Interest / Interest	4.5x	4.2x	4.0x	4.0x	4.2x
CFO Pre-W/C / Debt	16.2%	13.5%	13.1%	12.7%	13.0%
CFO Pre-W/C – Dividends / Debt	11.0%	8.6%	8.1%	7.6%	7.9%
Debt / Capitalization	58.8%	62.2%	60.9%	59.2%	58.6%

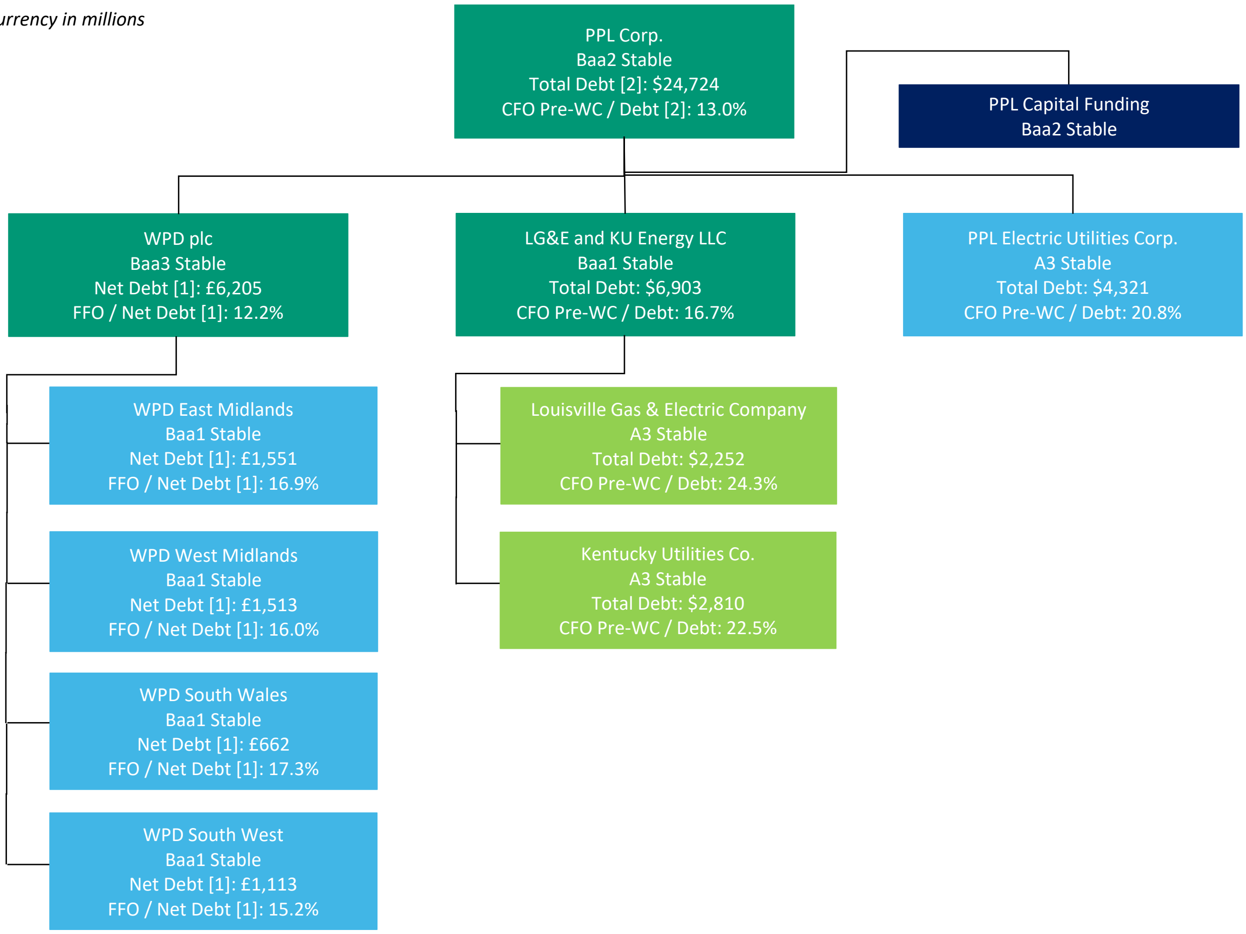
[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Profile

PPL Corporation is a utility holding company headquartered in Allentown, PA with three regulated jurisdictions: the United Kingdom, Kentucky, and Pennsylvania. Its UK regulated operations which are for sale, include Western Power Distribution Plc (WPD, Baa3 stable), a pure wires only distribution company with no retail exposure. Kentucky regulated utilities include Louisville Gas & Electric Company (LG&E, A3 stable) and Kentucky Utilities Company (KU, A3 stable), which operate under a traditional integrated utility model. The two Kentucky utilities are held under an intermediate holding company, LG&E and KU Energy LLC (LKE, Baa1 stable). PPL's Pennsylvania operations are comprised of PPL Electric Utilities Corporation (PPLEU, A3 stable), an electric transmission business mostly regulated by the Federal Energy Regulatory Commission (FERC), and an electric distribution company regulated by the Pennsylvania Public Utility Commission (PAPUC). PPL, through its Kentucky operating subsidiaries, controls or owns about 7.6 GW of fossil-fired generating capacity in the US and sells electricity and natural gas to about 10.6 million customers in the US and UK.

Exhibit 3
PPL Corporation's organizational structure [2]
As of 30 September 2020

Currency in millions

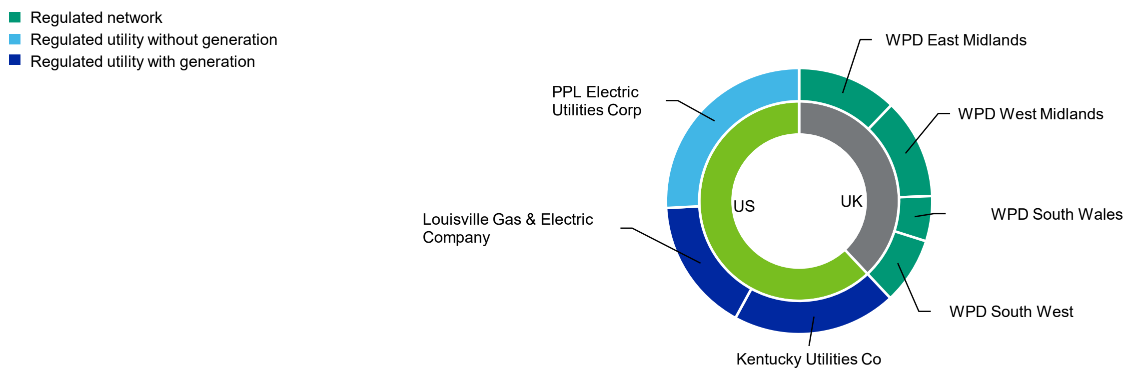


[1] As of 3/31/2020; CFO Pre-WC to Debt is not a key metric we use for WPD and subsidiaries. WPD and subsidiaries are assessed under the Regulated Electric and Gas Networks Industry Grid
[2] Metrics are based on 'adjusted' financial data and incorporate Moody's Global Standard Adjustments for non-financial corporations
Source: Moody's Financial Metrics, Company reports

Exhibit 4

Unique mix of businesses which include utility operations in the UK

US and UK Rate Base



Source: Company Reports

Detailed credit considerations

Sale of UK assets will increase business risk

PPL announced on 10 August 2020 that it has initiated a process to sell its utility assets in the UK, that have a total estimated rate base of around $10 billion and approximately $8 billion of debt. A transaction is expected to be announced in the first half of 2021.

Because we view the UK utility regulatory environment to be more credit supportive than that of US state regulation, we currently consider PPL's overall business risk to be lower than most of its US peers. Approximately one third of PPL's rate base is in the UK, whose cash flow contribution also averaged about one third of PPL's total cash flow over the last four years. If PPL is successful in divesting its UK assets, we estimate its Kentucky operations will proportionally increase to more than half of rate base from around 37%. Due to their vertically integrated utility business model with coal as the primary fuel source for its generation in Kentucky, we would view PPL's overall business risk to be higher.

Furthermore, PPL would have smaller scale and diversity in its operations and cash flow to mitigate certain risks. For example, its carbon transition risk would be proportionally higher if the UK assets were to be divested. We have viewed the combined low business risk and diversity of the wires-only Pennsylvania utility operations under PPL Electric Utilities Corp. (A3 stable) and the distribution networks operations in the UK as more than offsetting the carbon transition risk from the Kentucky operations, which would no longer be the case.

Adequate financial profile, but credit metrics slightly pressured

At the latest twelve months period ending 30 September 2020, PPL's CFO pre-WC to debt was 13.0% and CFO pre-WC excluding dividends to debt was 7.9%. PPL's metrics have been slightly higher historically. In 2018, PPL recorded a three-year average of these metrics of around 14.3% and 9.3%, respectively. The decline in its metrics in recent years was expected due to elevated capital investment programs being funded primarily with debt as well as the negative impact from tax reform. However, prudent recovery mechanisms that are in place should result in more timely recovery of investments and help PPL maintain key metrics in our expected ranges. Going forward, we estimate PPL's CFO pre-WC to debt to be in the range of 12%-14% prior to the completion of the UK operations sale. We estimate that PPL, excluding its UK operations, would exhibit a ratio of cash from operations excluding changes in working capital (CFO pre-WC) to debt around 13%. There would be about a $2 billion shortfall in reaching 15% on a pro forma basis based on our estimate.

It is possible that metrics may weaken further due the negative impact of the COVID pandemic. However, we do not expect the impact to be material because PPL experienced an increase in residential usage while commercial and industrial customer usage declined.

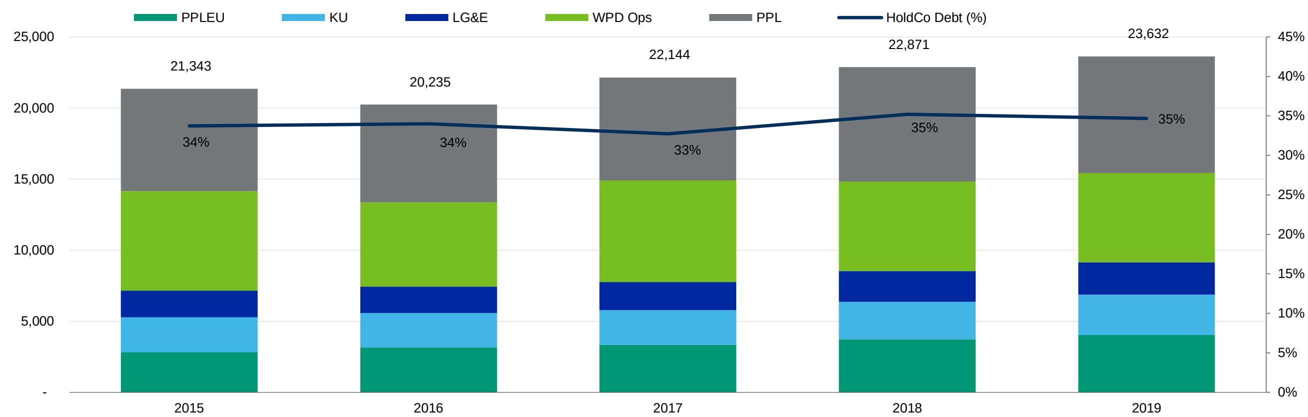
With approximately $8.2 billion of holding company debt as of year-end 2019, the ratio of holding company debt to total consolidated debt is roughly 35%. Holding company debt at these levels generally leads to a wider differential between the credit quality of the parent company and its operating subsidiaries.

Depending on the amount of proceeds received, PPL could choose to reduce its holding company debt as a way to strengthen its balance sheet. We estimate that parent debt would be approximately 33% of it total consolidated debt post transaction before any parent debt reduction efforts. The sale of the UK assets could be credit positive if PPL improves its metrics and lowers parent debt such that these developments offset the increase in overall business risk.

Exhibit 5

PPL maintains relatively high parent debt level

Composition of PPL debt, 2015-2019



Source: Moody's Financial Metrics

Stable earnings and cash flow generated by regulated utilities, some with commodity exposure

All of PPL's subsidiaries are regulated utilities and due to regulatory environments that are transparent, particularly in the UK, we have viewed the business risk of PPL to be lower than many of its peers. PPL has an electric transmission and distribution (T&D) utility in Pennsylvania, two vertically integrated subsidiaries located in Kentucky, and four electricity distribution network subsidiaries in the UK. The sale of the PPL's UK operations will substantially reduce the company's size and diversity, as approximately 50%-60% of earnings are produced by its UK operations, which are consolidated under the intermediate holding company WPD. The UK operations have also provided regulatory and operational diversity to PPL's overall portfolio and mitigated higher risk associated with its Kentucky generation portfolio. PPL's remaining earnings are produced in the US, about equally split between its two Kentucky utilities and the utility in Pennsylvania.

As a distribution network operator (DNO) in the UK, WPD's subsidiaries do not have any commodity production or procurement responsibilities, completely insulating the UK organization from commodity exposure. In comparison, PPLEU is a wires only utility that maintains some commodity exposure because it has provider of last resort (POLR) obligations. The risk associated with this exposure is minimal given the transparent purchased power cost pass-through mechanisms in place. PPLEU also enters into full requirements supply agreements to serve its POLR customers. PPL's Kentucky utilities have the most exposure to commodities because they own and operate generation assets to produce power for their customers. Although LG&E and KU have direct commodity exposure, Kentucky allows the cost of fuel to be recovered through a fuel adjustment clause within four months.

Exhibit 6
Overall regulatory environment for PPL is supportive

	Mechanisms	Allowed ROE
Pennsylvania	FERC Formula Rates, Distribution System Improvement Charge, Smart Meter Rider, Storm Cost Recovery, Alternative Ratemaking, Forward Test Year for distribution rate cases	11%[1]
Kentucky	Environmental Cost Recovery, Fuel Adjustment Clause, Gas Line Tracker, Forward Test Year for base rate cases, Gas Supply Clause, Demand Side Management	9.725%
United Kingdom	Real-time recovery of capex, Incentive revenues available for strong performance and innovation, Mechanism to retain 70% of cost efficiencies, Accelerated recovery of RAV	6.4%[2]

[1] Weighted average of distribution and transmission allowed ROE
[2] Approximately 9.4% including inflation of regulatory asset value
Source: Company Reports

Supportive regulatory frameworks in the US

We view the regulatory frameworks in the US, provided by Kentucky, Pennsylvania as well as the Federal Energy Regulatory Commission (FERC), to be supportive. They result in stable and predictable earnings and cash flow generated from roughly $18 billion of combined rate base (as of year-end 2019). Kentucky has approved various tracker mechanisms that provide timely recovery of costs outside of a general rate case. Some of the authorized tracker mechanisms include a Fuel Adjustment Clause (FAC), an Environmental Cost Recovery Surcharge (ECR), a Gas Supply Clause (GSC), a Gas Line Tracker (GLT), and a Demand-Side Management (DSM) Cost Recovery Mechanism. The Kentucky operating utilities do not have decoupling mechanisms in place, which subjects LG&E and KU's revenue to some volatility. However, the impact on its revenue due to non-weather related demand fluctuations is minimized because of the DSM mechanism.

The outcome of KU and LG&E's latest rate case, which concluded in April 2019, was reasonable when it was settled for a combined rate increase of approximately $77 million. Also, the Kentucky Public Service Commission (KPSC) approved the termination of the Tax Cuts and Jobs Act (TCJA) bill credit mechanism, which was used to reduce both electric and gas rates to reflect the impact of the tax reform. With the new rates from the latest rate cases implemented, the termination was approved. This represented a total annual revenue increase of $114 million for KU and $73 million for LG&E, effective as of May 2019.

On 13 November 2020, KU and LG&E announced that they anticipate filing electric and gas rate cases with the KPSC on or after 25 November 2020. KU will be requesting a $170 million electric rate increase and LG&E will be requesting a $131 million electric and $30 million gas rate increase. The requested increases are based on a 10% ROE, and the decision is expected in June 2021. KU and LG&E are also requesting approval for a one-year billing credit which will credit customers approximately $53 million, representing approximately $12 million and $39 million for KU and LG&E electricity customers and $2 million for LG&E gas customers. The applications will include requests to bring advanced metering infrastructure into effect to further enhance grid automation and reliability in the state.

PPLEU is regulated by the PAPUC and FERC, both with regulatory frameworks that we view as above average compared to other states. In Pennsylvania, the PAPUC allows utilities to use a fully projected future test year in rate proceedings, a credit positive, as it provides companies with the ability to forecast costs and earn a return on investments in a timely manner. PPLEU also utilizes a distribution system improvements charge (DSIC), a smart meter rider and other recovery mechanisms, reducing regulatory lag and providing for the timely recovery of and a return on incurred costs. These mechanisms provide the opportunity for accelerated cost recovery that will help support PPLEU's credit metrics during a period of elevated capital investments.

We do not expect PPLEU to file a rate case over the next 12-18 months. The utility's last general distribution rate case concluded in November 2015 when a settlement was reached and approved. The settlement authorized a $124 million electric distribution rate increase although it did not specify other factors such as the allowed return on equity (ROE). In Feburary 2020, the PAPUC lowered the ROE for the DSIC by 10 basis points to 9.45%. Despite the decrease, we continue to view the mechanism to be credit supportive and expect PPLEU to continue to invest under this mechanism.

In October 2020, the FERC issued an order in a complaint filed by a third party challenging PPLEU's return on equity of 11.18% for transmission. The third party proposed an alternative ROE of 8.5%. The FERC order sent the complaint to settlement procedures. If no settlement can be reached, the case will go to public hearing.

Relative to other electric utilities, a high percentage of PPLEU's rate base consists of FERC regulated transmission assets. As of year-end 2019, the rate base contribution from transmission was approximately 50% and this is expected to grow to about 55% by 2023. We consider FERC regulation to be more predictable and credit supportive due to the formulaic nature of its rate case mechanisms. Based on the formula rate mechanism, PPLEU is currently authorized to earn an 11.68% ROE on its existing transmission assets, while the $650 million Susuehanna-Roseland transmission project is authorized to earn a 12.93% ROE due to incentive based rate treatment. Since the rate setting process is not contested before state commissions and given its design to ensure timely recovery, we generally consider revenue collected under this regulatory framework to be more stable and predictable than state regulated utility businesses

Transparent but developing regulatory environment in the UK

The UK regulatory environment is among the strongest and most transparent globally. PPL's UK subsidiary WPD owns four electricity distribution networks with a track record of excellent operational performance, as well as a first-tier efficiency ranking relative to their peers, according to the metrics established by Ofgem (Office of Gas and Electricity Markets), the primary regulatory body for the UK electric and gas utilities. As the top performer among their DNO peers, the WPD utilities have benefitted from performance-based rate making mechanisms, with incentive bonus payments annually and a higher authorized ROE compared to their UK peers. For the 2019/2020 regulatory year, WPD's performance included $94 million of incentive revenues, which will be collected in 2020/2021 rates. Additionally, as the only DNO to qualify for fast-track incentives, WPD companies are allowed to retain 70% of realized cost efficiencies.

Ofgem uses the RIIO (Revenue = Incentive + Innovation + Outputs) model. The reviews of RIIO determine the allowed revenues for all electricity distribution companies. The first phase of the rate review set the revenues operators are allowed to earn over the eight year period from April 2015 to March 2023. As a result, we had expected PPL's UK operations to provide a steady stream of dividends to PPL, supporting PPL's overall credit quality through 2023.

Although the RIIO framework itself continues to be transparent, we expect the upcoming RIIO-2 framework for electric distribution to limit the ability of the utility to outperform and earn financial incentives. In May 2019, Ofgem proposed that allowed returns should be based on a cost of equity of 4.8%, below the 6.4% used in WPD's current nominal returns. Ofgem's proposals for the RIIO-2 framework would make systematic outperformances less likely, in our view, and the reduction in expected returns is credit negative for all UK networks. PPL expects significant electricity distribution network investment will be required in RIIO-2 to reach the UK's carbon reduction targets and that Ofgem will need to design a framework that effectively incentivizes delivery of those objectives.

We expect the developments around the RIIO-2 framework and implementation to continue over the next 24 months. The sector specific methodology consultation took place in July 2020, about six months after Ofgem published its framework decision. The decision on the sector methodology is expected in December 2020 and the DNOs, including WPD's utilities, will submit their business plan in December 2021.

Exhibit 7
Western Power Distribution service area

Source: Energy Networks Association

Exhibit 8
Price control overview

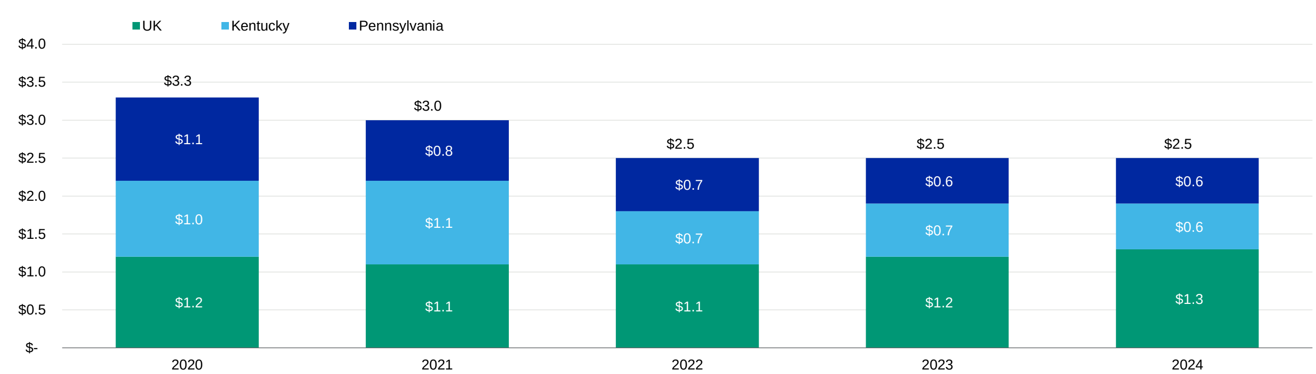
					GB Electricity Distribution
Regulator / Price Control					Ofgem / RIIO-ED1
Term of price control					Apr 2015 - Mar 2023
Allowed return on RAV (vanilla real)					3.27% (2019-20) 2.95% (2020-21)
Regulated Businesses	EMID	WMID	SWALES	SWEST	Group
Company's forecast RoRE over control	8.4%	7.7%	8.7%	9.3%	8.4%
Regulated Asset Value (Ofgem) at March 2020	£2.53 bn	£2.54 bn	£1.19 bn	£1.76 bn	£8.02 bn

Note: 6.4% was the assumed return on regulatory equity (RoRE) for WPD's DNOs
Source: Ofgem; WPD

Large, but declining, capital investment program with largest amount in the UK

PPL is currently in the midst of a large capital investment plan. Prior to the announcement of the UK operations sale, PPL had expected to spend approximately $14 billion over a five year horizon with the projected breakdown of capital investments by region is as follows: $5.9 billion in the UK, $4.1 billion in Kentucky, and $3.8 billion in Pennsylvania. However, even if the company divest its UK assets, PPL's large capital investment plan is expected to decline. The company's planned capital investment represents about 49% of the company's total rate base, which is approximately $28.3 billion (as of year-end 2019). Although PPL plans to decrease its overall capital investment over time, we expect the company to continue to invest in its US system, at least at a level to maintain its rate base.

Exhibit 9
Projected Capital Investment Plan for PPL's US and UK Regulated Utilities
($ billions)



Source: Company Reports

We expect that a significant amount of these investments will be recovered through regulatory recovery mechanisms outside of traditional base rate case proceedings. For instance in Kentucky, we expect regulatory lag related to KU's large capital investment plan to be somewhat moderated by the supportive regulatory environment, especially regarding environmental expenditures through the ECR. The KPSC is also authorized to grant a return on construction work in progress (CWIP) in rate case proceedings, a credit positive. In Pennsylvania, the alternative ratemaking mechanisms, FERC transmission formula rate, DSIC mechanism and other recovery mechanisms are in place to reduce regulatory lag and provide for a more timely recovery of costs and a predictable return on investments. Together these mechanisms allow PPL to receive timely returns for approximately 80% of its investments in the US.

Additional risk to managing foreign currency exchange exposure will be eliminated with UK sale

PPL must manage its foreign currency risk closely, since a significant portion of earnings and cash flow is generated in the UK. This is a risk unique to PPL compared to its US peers. As of September 2020, PPL's foreign exchange exposure is 100% hedged for 2020 at an average rate of $1.45 per GBP. As of September 2020, PPL had not hedged its 2021 currency exposure. While we expect PPL to maintain its forward hedging program, it is unlikely that PPL will be active in layering in additional hedges since it announced the divestiture of its UK business.

With its current business mix, we expect PPL to generate about 34% of its cash flow from its UK operations while about 30% of PPL's debt is either denominated in GBP or has been swapped into GBP. As a result, we do not expect GBP depreciation to heavily influence the CFO pre-WC to debt metric. In addition, if depreciation of the GBP against other currencies leads to higher import prices in the UK, inflation as measured by the Retail Prices Index (RPI) could increase modestly. Since WPD's revenues and regulatory assets are adjusted annually by the RPI, this could lead to higher earning in GBP terms.

ESG considerations

Environmental

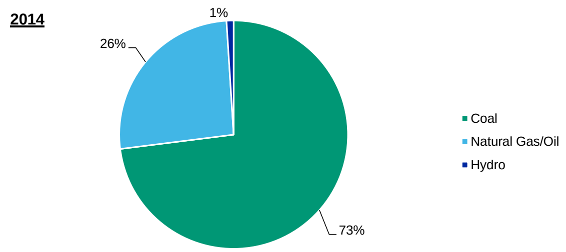
Overall, PPL has moderate carbon transition risk within the regulated utility sector. The higher carbon transition risk from its vertically integrated utilities in Kentucky is offset by the low carbon transition risk from the wires only utility operations in Pennsylvania and the UK.

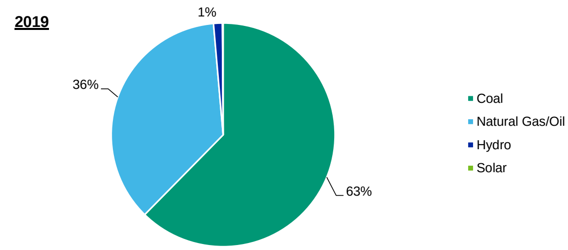
Fuel concentration in coal is typically considered to be a significant credit negative from an environmental standpoint. However, we do not view PPL's high reliance on coal in Kentucky to be as negative as some other utilities because the state is very supportive of the coal industry. This support is evidenced by the ECR, which provides the company with credit supportive cost recovery provisions for its investments in coal-related environmental expenditures. However, PPL is exposed to the risk of potentially needing to make a more rapid transition to clean energy in Kentucky in the future if carbon policies change.

PPL has total generation capacity in the US of 7.6 GW, with 4.7 GW or 62% being coal-fired, providing the majority (79%) of its electricity generation output. The remaining 21% is comprised mainly of gas/oil-fired, hydro, and solar facilities. Over the last two years, PPL's fuel mix improved with the addition of the 660-MW gas-fired combined-cycle power plant at Cane Run, replacing the older, retired Tyrone and Green River coal-fired power plants as well as the Cane Run coal plant. Due to environmental requirements and energy efficiency measures, KU retired two older coal units at the EW Brown plant in the first quarter of 2019 with a combined capacity of 272 MW.

PPL received approval from the KPSC to develop a 4 MW solar facility to service a solar share program, a voluntary program that allows customers to subscribe capacity in the solar share facility. In January 2020, PPL requested approval from the KPSC for the purchase of 100 MW of solar power in connection with the green tariff option established in the most recent Kentucky rate cases. The KPSC has approved the solar contract subject to certain changes. PPL will purchase the initial 20 years of output of a proposed third-party solar generation facility, resell the majority of the power as renewable energy to two large industrial customers and use the remaining power for other customers.

Exhibit 10
PPL Generation Mix (MW)





Source: Company Reports

PPL has enhanced transparency and disclosure, especially related to its environmental risks, over the last three years. The company published a 2019 sustainability report, has set a more aggressive carbon reduction goal of at least 80% from 2010 levels by 2050 and has accelerated its previous 70% goal by 10 years to 2040. It also reiterated the assessment outcome when considering a two-degree scenario analysis based on the recommendations of the Task Force on Climate Related Financial Disclosure (TCFD). Under these carbon regulation policy scenarios, PPL's analysis indicated that the CO2 emissions from the company's Kentucky utility generation assets would be reduced 45-90% from 2005 levels by 2050.

Social

Social risks are primarily related to PPL's customer and regulatory relations as well as demographic and societal trends. PPL's regulatory environment as well as its interaction with the commissions are important in considering the companies' social risk. Also, the safety and reliability of its operations are important social considerations. Given developments related to the COVID-19 pandemic, there is a possibility of increasing social risk longer term as the affordability of the utility bill and prolonged recessionary impact have a negative impact on PPL.

Governance

In general, we view the corporate governance and financial policy of PPL to be balanced. The company faces a unique set of additional governance and financial risks, including meaningful foreign currency exchange risk, due to having utility operations in the UK. We note that a stable financial position is an important characteristic for managing environmental and social risks.

Liquidity analysis

We expect PPL to maintain an adequate liquidity profile over the next 12-18 months. Although PPL does not have a short-term rating, PPL issues short-term debt through its financing subsidiary PPL Capital Funding, Inc. The borrowings at PPL Capital Funding are unconditionally guaranteed by PPL.

As of the last twelve months (LTM) ending 30 September 2020, PPL had $746 million in cash and cash equivalents. In addition to the significant amount of cash, PPL's liquidity is supported by stable cash flow generated from its seven low risk utility subsidiaries.

At the parent level, PPL maintains a $1.45 billion syndicated credit facility expiring in January 2024. Drawings under this revolving credit facility are not subject to a material adverse change clause. PPL Capital Funding has a commercial paper program of $1.5 billion to provide additional short-term financing. Additionally, PPL maintains a $50 million committed and $50 million uncommitted bilateral credit facility due in March 2021, with $15 million letters of credit outstanding under the uncommitted facility as of 30 September 2020. In March and April 2020, PPL added $400 million of term loan credit facilities at PPL Capital Funding ($300 million due 2021 and $100 million due in 2022).

Including the parent company facility, PPL had approximately $3.5 billion of consolidated bilateral and syndicated credit facilities as of 30 September 2020 in the US, with total available capacity of about $2.5 billion. WPD maintains a separate external source of liquidity with a £1.2 billion credit facility, of which £817 million was unused at the end of the same period.

Exhibit 11
Consolidated revolver availability as of 30 September 2020

Company		Capacity		Borrowed		LP and CP Outstanding	Total Use as % of Capacity		Capacity Available
PPL	$	1,950	$	400	$	15	21%	$	1,535
PPLEU	$	650	$	-	$	281	43%	$	369
LG&E	$	500	$	-	$	206	41%	$	294
KU	$	400	$	-	$	139	35%	$	261
Total US	**$**	**3,500**	**$**	**400**	**$**	**641**	**30%**	**$**	**2,459**
WPD	£	210	£	150	£	-	71%	£	58
WPD (South West)	£	220	£	118	£	-	54%	£	102
WPD (South Wales)	£	125	£	-	£	-	0%	£	125
WPD (East Midlands)	£	250	£	-	£	-	0%	£	250
WPD (West Midlands)	£	250	£	64	£	-	26%	£	186
Uncommitted Credit Facility	£	100	£	-	£	4	4%	£	96
Total UK	**£**	**1,155**	**£**	**332**	**£**	**4**	**29%**	**£**	**817**

Source: PPL Corporation SEC Filings

Over the LTM ending 30 September 2020, PPL generated approximately $3.1 billion of cash flow from operations, spent about $3.3 billion in capital investments and paid $1.3 billion in dividends resulting in negative free cash flow of approximately $1.4 billion. Due to the high level of planned capital investments, we anticipate PPL to continue to generate negative free cash flow over the next 12-18 months.

Year-to-date, PPL Capital Funding issued $1 billion of 10-year senior notes to pre-fund a $475 million maturity in November 2020 and to increase liquidity support. The proceeds were also used to pay down short-term borrowings at the operating company level and for general corporate purposes.

Structural considerations

PPL's holding company debt as a percentage of total consolidated debt is approximately 35%, which leads to material structural subordination and a relatively wide differential between the credit quality of PPL and its operating subsidiaries. For calculation purposes, the intermediate holding company debt at LKE and WPD is included in the parent level debt. Of the approximate $23.8 billion of consolidated debt as of year-end 2019, about $8.2 billion is issued at the parent level.

Rating methodology and scorecard factors

Moody's currently evaluates PPL's financial performance relative to the low-risk grid under the Regulated Electric and Gas Utilities rating methodology published in June 2017.

Exhibit 12
Rating Factors
PPL Corporation

Regulated Electric and Gas Utilities Industry [1][2]	Current LTM 9/30/2020		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	Aa	Aa	Aa	Aa
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.2x	Baa	3.5x - 4x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	13.3%	Baa	12% - 14%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	8.3%	Baa	7% - 9%	Baa
d) Debt / Capitalization (3 Year Avg)	60.0%	Ba	55% - 60%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		A3		A3
HoldCo Structural Subordination Notching	-2	-2	-2	-2
a) Scorecard-Indicated Outcome		Baa2		Baa2
b) Actual Rating Assigned		Baa2		Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 09/30/2020 (L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics

Appendix

Exhibit 13

Cash Flow and Credit Metrics [1]

CF Metrics	Dec-16	Dec-17	Dec-18	Dec-19	LTM Sept-20
As Adjusted					
FFO	**3,520**	**3,102**	**3,049**	**3,201**	**3,313**
+/- Other	(245)	(104)	(49)	(203)	(97)
CFO Pre-WC	**3,275**	**2,998**	**3,000**	**2,998**	**3,216**
+/- ΔWC	(25)	(34)	140	(210)	(72)
CFO	**3,250**	**2,964**	**3,140**	**2,788**	**3,144**
- Div	1,045	1,084	1,146	1,204	1,266
- Capex	2,999	3,172	3,275	3,112	3,265
FCF	**(794)**	**(1,291)**	**(1,281)**	**(1,529)**	**(1,387)**
(CFO Pre-W/C) / Debt	16.2%	13.5%	13.1%	12.7%	13.0%
(CFO Pre-W/C - Dividends) / Debt	11.0%	8.6%	8.1%	7.6%	7.9%
FFO / Debt	17.4%	14.0%	13.3%	13.5%	13.4%
RCF / Debt	12.2%	9.1%	8.3%	8.4%	8.3%
Revenue	7,517	7,447	7,785	7,769	7,632
Cost of Good Sold	1,528	1,497	1,526	1,419	1,178
Interest Expense	928	931	992	1,011	1,010
Net Income	1,789	1,016	1,135	1,475	1,336
Total Assets	38,515	41,659	43,576	45,680	47,924
Total Liabilities	28,384	30,774	31,798	32,578	34,127
Total Equity	10,132	10,886	11,779	13,103	13,798

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months
Source: Moody's Financial Metrics

Exhibit 14

Peer Comparison Table [1]

	PPL Corporation Baa2 Stable			National Grid plc Baa1 Negative			Duke Energy Corporation Baa1 Negative			Southern Company (The) Baa2 Stable			Dominion Energy, Inc. Baa2 Stable		
(in US millions)	FYE Dec-18	FYE Dec-19	LTM Sept-20	FYE Mar-18	FYE Mar-19	LTM Mar-20	FYE Dec-18	FYE Dec-19	LTM Sept-20	FYE Dec-18	FYE Dec-19	LTM Sept-20	FYE Dec-18	FYE Dec-19	LTM Jun-20
Revenue	7,785	7,769	7,632	20,225	19,611	18,491	24,521	25,079	24,194	23,495	21,419	20,172	13,366	16,572	16,825
CFO Pre-W/C	3,000	2,998	3,216	4,946	4,875	4,540	7,907	9,235	9,710	7,278	7,360	7,660	5,104	5,794	6,484
Total Debt	22,871	23,632	24,724	35,662	36,751	37,501	57,787	62,423	65,400	48,174	48,105	51,354	36,852	40,725	43,384
CFO Pre-W/C / Debt	13.1%	12.7%	13.0%	14.7%	13.2%	11.8%	13.7%	14.8%	14.8%	15.1%	15.3%	14.9%	13.8%	14.2%	14.9%
CFO Pre-W/C – Dividends / Debt	8.1%	7.6%	7.9%	8.6%	8.9%	8.7%	9.4%	10.6%	10.7%	14.9%	9.7%	9.7%	7.8%	6.9%	7.8%
Debt / Capitalization	60.9%	59.2%	58.6%	52.1%	53.8%	55.0%	52.9%	52.9%	54.2%	56.7%	53.8%	54.7%	56.7%	50.5%	54.3%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade
Source: Moody's Financial Metrics

Ratings

Exhibit 15

Category	Moody's Rating
PPL CORPORATION	
Outlook	Stable
Issuer Rating	Baa2
WESTERN POWER DISTRIB (EAST MIDLANDS) PLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
WESTERN POWER DISTRIB (WEST MIDLANDS) PLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
PPL CAPITAL FUNDING, INC.	
Outlook	Stable
Bkd Sr Unsec Bank Credit Facility	Baa2
Bkd Senior Unsecured	Baa2
Bkd Jr Subordinate	Baa3
Bkd Commercial Paper	P-2
WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa1
PPL ELECTRIC UTILITIES CORPORATION	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Commercial Paper	P-2
KENTUCKY UTILITIES CO.	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Bkd LT IRB/PC	A1
Commercial Paper	P-2
Bkd Other Short Term	P-2
LOUISVILLE GAS & ELECTRIC COMPANY	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured	A1
Sr Unsec Bank Credit Facility	A3
Bkd LT IRB/PC	A1
Commercial Paper	P-2
Bkd Other Short Term	P-2
LG&E AND KU ENERGY LLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1

Source: Moody's Investors Service

REPORT NUMBER 1253036

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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ISSUER COMMENT
11 August 2020

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RATINGS

PPL Corporation

Domicile	Allentown, Pennsylvania, United States
Long Term Rating	Baa2
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Source: Moody's Investors Service

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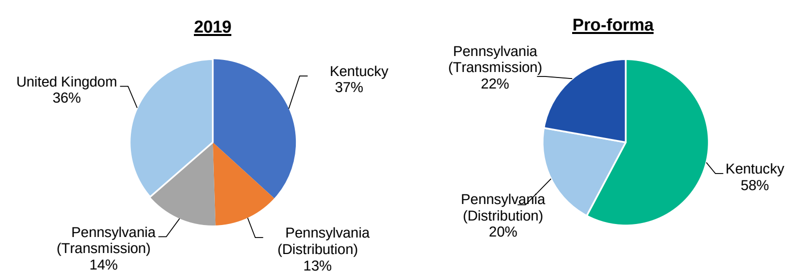
PPL Corporation/Western Power Distribution Plc

PPL plan to sell UK assets will increase business risk but could improve balance sheet; WPD credit profile unaffected

PPL Corporation announced on 10 August that it has initiated a process to sell its utility assets in the United Kingdom, which include four distribution network operators (DNO) owned under Western Power Distribution Plc (WPD, Baa3 stable) that have a total estimated rate base of around $10 billion and approximately $8 billion of debt.

UK asset sale would result in an increase in PPL's business risk. Because we view the UK utility regulatory environment to be more credit supportive than that of US state regulation, we currently consider PPL's overall business risk to be lower than most of its US peers. Approximately one third of PPL's rate base is in the UK, whose cash flow contribution also averaged about one third of PPL's total cash flow over the last four years. If PPL is successful in divesting its UK assets, we estimate its Kentucky operations will proportionally increase to more than half of rate base from around 37%. Due to their vertically integrated utility business model with coal as the primary fuel source for its generation in Kentucky, we would view PPL's overall business risk to be higher.

Exhibit 1
PPL's Kentucky rate base will proportionally increase



Source: Company reports

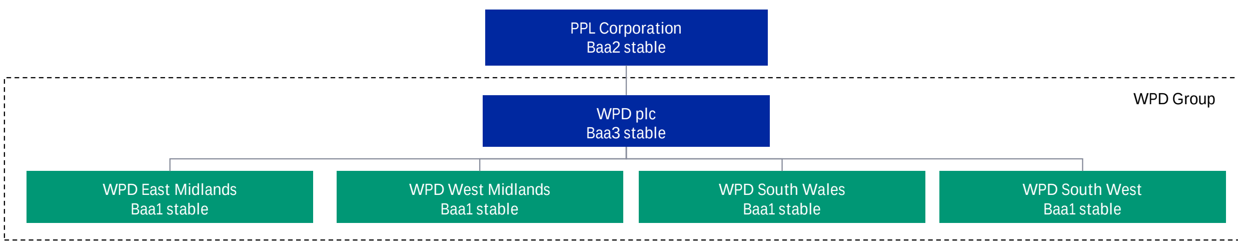
Furthermore, PPL would have smaller scale and diversity in its operations and cash flow to mitigate certain risks. For example, its carbon transition risk would be proportionally higher if the UK assets were to be divested. We have viewed the combined low business risk and diversity of the wires-only Pennsylvania utility operations under PPL Electric Utilities Corp. (A3 stable) and the distribution networks operations in the UK as more than offsetting the carbon transition risk from the Kentucky operations, which would no longer be the case.

Proceeds expected to be used to strengthen balance sheet. PPL stated that it would target a "mid-teens" cash flow to debt metric in order to maintain its current credit profile. We estimate that PPL, excluding its UK operations, would exhibit a ratio of cash flow from operations excluding changes in working capital (CFO pre-WC) to debt around 13%. There would be about a $2 billion shortfall in reaching 15% on a pro forma basis based on our estimate.

Moreover, depending on the amount of proceeds received, PPL could choose to reduce its holding company debt as a way to strengthen its balance sheet. We estimate that parent debt would be approximately 33% of it total consolidated debt post transaction before any parent debt reduction efforts. The sale of the UK assets could be credit positive if PPL improves its metrics and lowers parent debt such that these developments offset the increase in overall business risk.

Credit profile of Western Power Distribution unaffected by announcement. The four electricity distribution network operators (DNOs) owned by WPD are managed as one entity, with a pooling of resources designed to improve operational flexibility and efficiency. For regulatory reasons, the four DNOs, shown in the Exhibit below, remain legally separate and independent of each other.

Exhibit 2
Simplified organizational structure and price control overview



Source: Moody's Investors Service

Exhibit 3

	GB Electricity Distribution				
Regulator / Price Control	Ofgem RIIO-ED1				
Term of price control	April 2015 - March 2023				
Allowed return on RAV (vanilla real)	2.95% (2020-21)				
Regulated Businesses	East Midlands	West Midlands	South Wales	South West	WPD group
Company's forecast RoRE over control[1]	6.8%	8.2%	7.7%	8.2%	7.7%
Regulated Asset Value (Ofgem) at March 2020	£2.53 bn	£2.54 bn	£1.19 bn	£1.76 bn	£8.02 bn

[1] As of July 2020. 6.4% was the assumed return on regulatory equity (RoRE) for WPD's DNOs
Source: Moody's Investors Service

WPD gears, as measured by net debt/regulated asset value, its DNOs at or slightly below regulatory assumptions (65%). Consolidated group gearing has been in the high 70s in recent years (77% at March 2020) reflecting the additional debt at the holding company (around 25% of the consolidated group's external debt at March 2020). We assess the WPD group's credit quality as commensurate with a Baa2 rating. We allow the DNOs rating to "pierce" the group's consolidated credit quality by one notch reflecting regulatory restrictions and ring-fencing provisions that apply to the DNO licensees and provide a degree of credit insulation. Conversely, the Baa3 rating of WPD is one notch below the consolidated credit quality of the group to reflect structural subordination.

Any change in ultimate parent, in isolation, would not affect our assessment of the WPD group's credit quality. Consequently, absent further detail of the new owners financial policy there is no impact on WPD's credit quality at this juncture.

REPORT NUMBER 1241274

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S
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Rating Action: Moody's affirms Baa2 ratings of PPL Corp. and PPL Capital Funding; outlooks changed to positive

18 Mar 2021

Approximately $8 billion debt securities affected

NOTE: On April 13, 2021, the press release was corrected as follows: in the list of Affirmations for PPL Capital Funding, Inc., the hybrid indicator (hyb) was removed from the Baa3 rating for Junior Subordinated Regular Bond/Debenture (Local Currency). Revised release follows.

New York, March 18, 2021 -- Moody's Investors Service ("Moody's") revised the rating outlook of PPL Corporation (PPL) and PPL Capital Funding, Inc. to positive from stable. All of their ratings, including the Baa2 Issuer Rating of PPL and the Baa2 senior unsecured and Prime-2 short-term ratings of PPL Capital Funding, Inc., were affirmed. The positive outlook is prompted by PPL's announcement today that it has agreed to sell Western Power Distribution plc (WPD) and its distribution network operator (DNO) subsidiaries in the UK to National Grid plc (National Grid). Separately, PPL will acquire Rhode Island based Narragansett Electric Company (NECO) from National Grid. PPL plans to use some of the cash proceeds from the WPD sale to reduce parent company leverage. A complete list of rating actions appears below.

RATINGS RATIONALE

"The divestiture of its UK assets provides an opportunity for PPL to improve its credit profile as it becomes a US-only utility holding company with operations in three supportive regulatory jurisdictions, namely Kentucky, Pennsylvania and now Rhode Island" stated Jairo Chung, Moody's Vice President-Senior Analyst. "In addition, the positive outlook reflects our expectation that PPL will use proceeds from the sale to meaningfully reduce parent level debt", added Chung.

Historically, we had viewed PPL's overall business and regulatory risk profile to be lower than most US peers because we incorporated a view that the UK electric distribution operations, which made up approximately 36% of PPL's total rate base, operated under a regulatory framework that provided greater transparency and predictability. However, the UK operations did expose to the company to foreign exchange risk.

With the divestiture of these operations, slightly more than half of PPL's rate base would be consisted of higher risk vertically-integrated utility operations in Kentucky if NECO isn't added. While the Kentucky regulatory environment is credit supportive, approximately 64% of PPL's power generation in the state was fueled by coal in 2020, increasing the proportion of PPL's business that is exposed to carbon transition risk. However, the addition of NECO, a low risk transmission and distribution (T&D) electric operation and natural gas local distribution company (LDC), to the PPL corporate family helps to somewhat offset the higher degree of Kentucky generation operations in its business mix. We estimate a little over half of PPL's rate base will now be in Pennsylvania and Rhode Island, where PPL will have lower risk utility operations, after this transaction is completed.

PPL's plan for debt reduction will also benefit its overall credit profile and we expect the company to now target higher credit metrics than its historical levels. In 2020, for example, PPL produced a 12.9% ratio of cash flow from operations before changes in working capital (CFO pre-WC) to debt. The company now expects to generate CFO pre-WC to debt in the 16%-18% range and target parent debt to be below 25% of consolidated debt, compared to approximately 35% at the end of 2020.

Rating Outlook

The positive outlook reflects our expectation that PPL will use some of the proceeds of the WPD divestiture to lower its overall leverage and improve its CFO pre-W/C to debt ratio such that it is above its current upgrade threshold of 16% on a sustained basis.

Factors that could lead to an upgrade

PPL's ratings could be upgraded if the WPD and NECO sales are executed as expected, some proceeds are used to pay down, resulting in consolidated financial metrics improving such that its CFO pre-WC to debt ratio is above 16% on a sustained basis. Also, if the percentage of PPL's parent debt level is reduced significantly, an upgrade could be considered.

Factors that could lead to a downgrade

A rating downgrade could be considered if PPL's financial metrics deteriorate, including CFO pre-WC to debt falling below 12% on a sustained basis; if there is a significant increase in parent debts; or if the regulatory environments for its utility subsidiaries become contentious, increasing regulatory lag or reducing their ability to earn appropriate returns on their investments.

Outlook Actions:

..Issuer: PPL Capital Funding, Inc.

....Outlook, Changed To Positive From Stable

..Issuer: PPL Corporation

....Outlook, Changed To Positive From Stable

Affirmations:

..Issuer: PPL Capital Funding, Inc.

....Junior Subordinated Regular Bond/Debenture (Local Currency), Affirmed Baa3

....Senior Unsecured Bank Credit Facility (Local Currency), Affirmed Baa2

....Commercial Paper (Local Currency), Affirmed P-2

....Senior Unsecured Regular Bond/Debenture (Local Currency), Affirmed Baa2

..Issuer: PPL Corporation

.... Issuer Rating (Local Currency), Affirmed Baa2

Headquartered in Allentown, Pennsylvania, PPL Corporation is a utility holding company with operations in Kentucky, Pennsylvania and the United Kingdom. Once the transaction is completed, it will be US-only based utility holding company with utility operations in three states including Rhode Island.

The principal methodology used in these ratings was Regulated Electric and Gas Utilities published in June 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1072530 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1243406 .

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

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S&P Global
Ratings

Research

PPL Electric Utilities Corp.

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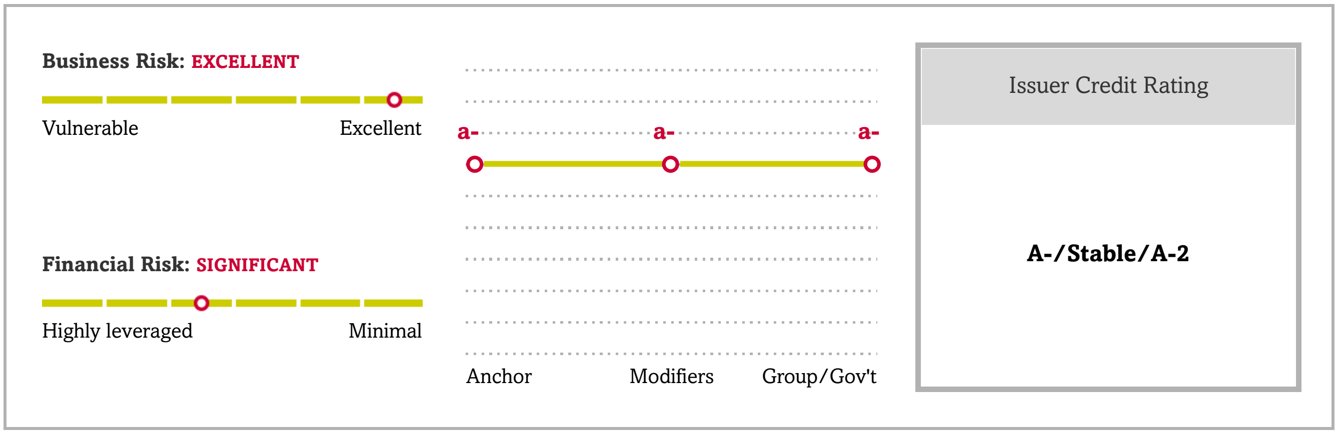
PPL Electric Utilities Corp.



Credit Highlights

Overview

Key Strengths	Key Risks
Regulated, low-risk electric transmission and distribution operations.	Operates in one state and thus has limited geographic and regulatory diversity.
Significant investment in U.S. Federal Energy Regulatory Commission-regulated transmission provides stable returns through a credit-supportive formulaic rate mechanism.	Weakened financial measures after customer bill credits following implementation of U.S. tax reform.
Operates under Pennsylvania's credit-supportive and constructive regulatory framework.	
Balanced capital structure supports financial risk profile.	

PPL Electric Utilities Corp. (PPL EU) operates under credit-supportive electric transmission framework. PPL EU has significant investment in U.S. Federal Energy Regulatory Commission (FERC)-regulated transmission, which provides stable returns through a formulaic rate mechanism.

Pennsylvania's regulation supports credit quality. Although PPL EU has limited geographic diversity because it operates only in Pennsylvania, it enjoys a credit-supportive and constructive regulatory framework in the state.

Debt leverage remains modest for regulated utilities. Debt leverage is expected to remain high, averaging about 5x over the next few years, in part from higher capital spending and the impact of U.S. tax reform on operating cash flow.

Outlook: Stable

The stable rating outlook on PPL EU reflects that of parent PPL Corp. (PPL) over the next 24 months. This is based on PPL's excellent business risk profile, which is at the upper end of the range, and significant financial risk profile, which is at the lower end of the range. Under S&P Global Ratings' base-case scenario, PPL's adjusted funds from operations (FFO) to debt will average about 14%, and adjusted debt to EBITDA will remain elevated at about 5x.

Downside scenario

We could lower the rating over the next 24 months on PPL and its subsidiaries if core credit ratios weakened such that adjusted FFO to debt consistently stays below 13% and business risk remains unchanged.

Upside scenario

Given our assessment of business risk and our base-case scenario for financial performance, we do not anticipate higher ratings during the outlook period. However, we could raise our ratings if PPL achieves adjusted FFO to debt of more than 18% on a consistent basis while maintaining the current level of business risk.

Our Base-Case Scenario

Assumptions

- Gross margin averaging about 76% per year, mostly from timely cost recovery of transmission and distribution (T&D) investments and sales growth;
- Gross margin benefits from a distribution system improvement charge and transmission rate formula;
- EBITDA margin averaging 39% per year;
- Capital spending averaging $900 million per year;
- Dividends averaging about $310 million per year;
- Negative discretionary cash flow, after capital spending and dividends, requiring external funding needs; and
- All debt maturities are refinanced.

Key Metrics

	2020e	2021e	2022e
Adjusted FFO to debt (%)	14-15	14-15	14-15
Adjusted FFO cash interest coverage (x)	4.5-5	4.2-4.7	4.2-4.7
Adjusted debt to EBITDA (x)	4.7-5.3	4.7-5.3	4.7-5.3

e--Estimate. FFO--Funds from operations.

Company Description

PPL EU is an electric T&D utility serving about 1.4 million customers in central and eastern Pennsylvania.

Business Risk: Excellent

As a regulated utility, PPL EU is a low-risk T&D business buoyed by a credit-supportive regulatory environment, as well as a relatively large customer base that consists of both residential and commercial customers. These aspects create both visible and stable cash flow for the utility. Pennsylvania's regulatory framework is stable and generally transparent, using forward test periods and rate surcharge recovery of transmission costs, construction work in progress, storm recovery, and purchased power costs. These mechanisms contribute to reduced regulatory lag and support earned returns similar to authorized returns.

Peer comparison

Table 1

PPL Electric Utilities Corp.--Peer Comparison

Industry Sector: Electric

	PPL Electric Utilities Corp.	NSTAR Electric Co.	Ohio Power Co.	PECO Energy Co.
Ratings as of Feb. 10, 2020	A-/Stable/A-2	A/Stable/A-1	A-/Stable/--	BBB+/Stable/A-2
	--Fiscal year ended Dec. 31, 2018--			
(Mil. $)				
Revenue	2,277.0	3,112.9	3,015.5	3,038.0
EBITDA	866.7	866.1	644.6	900.2
FFO	742.7	612.7	487.2	770.8
EBIT	508.7	541.8	437.9	598.6
Interest expense	159.0	118.7	109.7	136.4
Cash interest paid	144.0	133.4	106.0	131.4
Cash flow from operations	978.0	776.8	984.7	737.6
Capital expenditure	1,196.0	718.0	720.1	844.0
FOCF	(218.0)	58.8	264.6	(106.4)
Dividends paid	390.0	229.0	337.5	306.0
DCF	(608.0)	(170.2)	(72.9)	(412.4)
Cash and short-term investments	267.0	1.6	4.9	130.0
Gross available cash	267.0	1.6	4.9	130.0
Debt	3,746.9	3,337.8	1,860.5	3,445.8
Preferred stock	0.0	21.5	0.0	0.0
Equity	4,461.0	3,751.7	2,297.4	3,820.0
Debt and equity	8,207.9	7,089.5	4,157.9	7,265.8
Adjusted ratios				
EBITDA margin (%)	38.1	27.8	21.4	29.6
EBIT margin (%)	22.3	17.4	14.5	19.7
Return on capital (%)	6.5	7.8	10.6	8.6

Table 1

PPL Electric Utilities Corp.--Peer Comparison (cont.)

Industry Sector: Electric

	PPL Electric Utilities Corp.	NSTAR Electric Co.	Ohio Power Co.	PECO Energy Co.
EBITDA interest coverage (x)	5.5	7.3	5.9	6.6
FFO cash interest coverage (x)	6.2	5.6	5.6	6.9
Debt/EBITDA (x)	4.3	3.9	2.9	3.8
FFO/debt (%)	19.8	18.4	26.2	22.4
Cash flow from operations/debt (%)	26.1	23.3	52.9	21.4
FOCF/debt (%)	(5.8)	1.8	14.2	(3.1)
DCF/debt (%)	(16.2)	(5.1)	(3.9)	(12.0)
Debt/debt and equity (%)	45.7	47.1	44.7	47.4
Return on common equity (%)	9.7	10.0	13.5	12.1
Common dividend payout ratio, unadjusted (%)	90.7	59.8	103.7	66.5

FFO--Funds from operations; FOCF--Free operating cash flow; DCF--Discretionary cash flow.

Financial Risk: Significant

Our stand-alone financial risk profile for PPL EU incorporates our base-case scenario of FFO to debt in the 14%-15% range. This reflects the effects of the recent tax reform flowing to customers, including through rate credits. Our financial risk profile assessment is also supported by adjusted FFO cash interest coverage in the 4.2x-5.0x range. We expect financial measures to improve over the forecast period as the company uses cost-recovery mechanisms in its regulatory jurisdiction, as well as due to eventual base rate increases. Ongoing discretionary cash flow deficits, in part from ongoing capital spending and dividends, will require external funding including through debt issuances. The regulated nature of the T&D business provides stable cash flows, which we view as credit supportive. We expect debt leverage to remain relatively high through 2022 as indicated by adjusted debt to EBITDA in the 4.7x-5.3x range. We use our medial volatility table, which reflects more relaxed benchmarks than those used for most corporate issuers. This reflects the company's steady cash flow, rate-regulated utility operations, and effective regulatory risk management.

Table 2

PPL Electric Utilities Corp.--Financial Summary

Industry Sector: Electric

	--Fiscal year ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
(Mil. $)					
Revenue	2,277.0	2,195.0	2,156.0	2,124.0	2,044.0
EBITDA	866.7	986.3	930.6	785.3	728.6
FFO	742.7	854.3	863.6	630.3	578.6
EBIT	508.7	642.3	646.6	539.3	538.6
Interest expense	159.0	142.0	129.0	130.0	122.0
Cash interest paid	144.0	128.0	115.0	117.0	110.0

Table 2

PPL Electric Utilities Corp.--Financial Summary (cont.)

Industry Sector: Electric	--Fiscal year ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
Cash flow from operations	978.0	880.0	872.0	602.0	613.0
Capital expenditure	1,196.0	1,254.0	1,134.0	1,107.0	957.0
FOCF	(218.0)	(374.0)	(262.0)	(505.0)	(344.0)
Dividends paid	390.0	336.0	288.0	181.0	158.0
DCF	(608.0)	(710.0)	(550.0)	(686.0)	(502.0)
Cash and short-term investments	267.0	49.0	13.0	47.0	214.0
Gross available cash	267.0	49.0	13.0	47.0	214.0
Debt	3,746.9	3,492.3	3,342.4	3,091.8	2,656.9
Preferred stock	0.0	0.0	0.0	0.0	0.0
Equity	4,461.0	3,992.0	3,391.0	3,119.0	2,717.0
Adjusted ratios					
EBITDA margin (%)	38.1	44.9	43.2	37.0	35.6
EBIT margin (%)	22.3	29.3	30.0	25.4	26.4
EBITDA interest coverage (x)	5.5	6.9	7.2	6.0	6.0
EBITDA cash interest coverage (x)	6.0	7.7	8.1	6.7	6.6
FFO cash interest coverage (x)	6.2	7.7	8.5	6.4	6.3
Debt/EBITDA (x)	4.3	3.5	3.6	3.9	3.6
FFO/debt (%)	19.8	24.5	25.8	20.4	21.8
Cash flow from operations/debt (%)	26.1	25.2	26.1	19.5	23.1
FOCF/debt (%)	(5.8)	(10.7)	(7.8)	(16.3)	(12.9)
DCF/debt (%)	(16.2)	(20.3)	(16.5)	(22.2)	(18.9)
Debt/debt and equity (%)	45.7	46.7	49.6	49.8	49.4
Return on common equity (%)	9.7	9.8	10.4	8.6	10.4
Common dividend payout ratio, unadjusted (%)	90.7	92.8	84.7	71.8	60.1

FFO--Funds from operations; FOCF--Free operating cash flow; DCF--Discretionary cash flow.

Liquidity: Adequate

The short-term rating on PPL EU is 'A-2', based on the issuer credit rating. We assess PPL EU's stand-alone liquidity as adequate because we believe its liquidity sources will cover uses by more than 1.1x over the next 12 months and meet cash outflows, even if EBITDA declines 10%. We believe PPL EU has sound banking relationships, the ability to absorb high-impact, low-probability events without the need to refinance, and satisfactory standing in credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash and liquid investments of about $20 million.	• Debt maturities, including outstanding commercial paper, of about $370 million.

- Credit facility availability of $650 million.
- Estimated cash FFO of about $860 million.
- Capital spending of about $550 million.
- Dividends of about $290 million.

Environmental, Social, And Governance

Environmental factors are material in our rating analysis. Although PPL is mostly a networks-based utility holding company, including PPL EU's electric T&D operations, credit quality is more negatively influenced by environmental factors as compared to peers. This reflects the Kentucky-based vertically integrated utilities that have generation capacity--about 8,000 megawatts--based on coal and natural gas, which represents an environmental risk factor. By 2050, PPL intends to have reduced its carbon footprint by 70%. In Kentucky, the company is seeking a green energy tariff that would help grow renewable energy. It expects to replace much of its coal-based generation with a combination of natural gas and renewables. Social and governance factors are in line with those of other utility companies.

Group Influence

Under our group rating methodology, we consider PPL EU a core subsidiary of its parent PPL, reflecting our view that PPL EU is highly unlikely to be sold, is integral to the group's overall strategy, possesses a strong long-term commitment from senior management, and is closely linked to the parent's name and reputation. We assess PPL EU's issuer credit rating to be in line with PPL's group credit profile of 'a-'.

Issue Ratings-Recovery Analysis

Key analytical factors

PPL EU's first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of over 1.5x supports a recovery rating of '1+' and an issue rating one notch above the issuer credit rating.

Reconciliation

Table 3

Reconciliation Of PPL Electric Utilities Corp. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. $)

	--Fiscal year ended Dec. 31, 2018--			
PPL Electric Utilities Corp. reported amounts				
	Debt	**EBITDA**	**Operating income**	**S&P Global Ratings' adjusted EBITDA**
	3,694.0	1,046.0	694.0	866.7
S&P Global Ratings' adjustments				
Cash taxes paid	--	--	--	20.0
Cash taxes paid: Other	--	--	--	--
Cash interest paid	--	--	--	(144.0)
Postretirement benefit obligations/deferred compensation	319.9	(211.3)	(211.3)	--
Accessible cash and liquid investments	(267.0)	--	--	--
Share-based compensation expense	--	10.0	--	--
Nonoperating income (expense)	--	--	26.0	--
EBITDA: Other income/(expense)	--	22.0	22.0	--
Depreciation and amortization: Other	--	--	(22.0)	--
Total adjustments	52.9	(179.3)	(185.3)	(124.0)
S&P Global Ratings' adjusted amounts				
	Debt	**EBITDA**	**EBIT**	**Funds from operations**
	3,746.9	866.7	508.7	742.7

Ratings Score Snapshot

Issuer Credit Rating

A-/Stable/A-2

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/leverage:** Significant

Anchor: a-

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)

- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a-

- **Group credit profile:** a-
- **Entity status within group:** Core (no impact)

Related Criteria

- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Insurance | General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	**a-**	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of February 12, 2020)*	
PPL Electric Utilities Corp.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Secured	A
Issuer Credit Ratings History	
01-Jun-2015	A-/Stable/A-2
10-Jun-2014	BBB/Watch Pos/A-2
15-Apr-2011	BBB/Stable/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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PPL Electric Utilities Corp.

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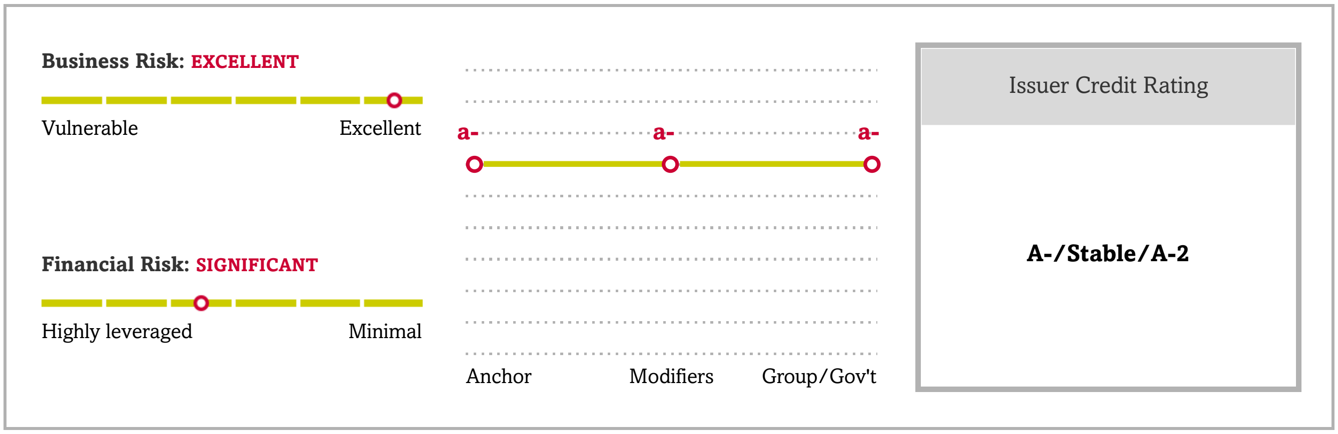

Credit Highlights

Overview

Key strengths	Key tisks
Regulated, low-risk electric transmission and distribution operations.	Operates in one state, limiting geographic and regulatory diversity.
Significant investment in U.S. Federal Energy Regulatory Commission-regulated transmission provides stable returns through a credit-supportive formulaic rate mechanism.	Operating territory with diverse economy but limited economic growth.
Operates under Pennsylvania's credit-supportive and constructive regulatory framework.	Negative discretionary cash flow, leading to external funding needs.
Balanced capital structure supports financial risk profile.	

PPL Electric Utilities Corp. (PPL EU) operates under credit-supportive electric transmission framework. PPL EU has significant investment in U.S. Federal Energy Regulatory Commission (FERC)-regulated transmission, which provides stable returns through a formulaic rate mechanism that contributes about 40% of operations.

Pennsylvania's regulation supports credit quality. Although PPL EU has limited geographic diversity because it operates only in Pennsylvania, the state's regulatory framework is credit-supportive and constructive.

High level residential customer load limits revenue impact of COVID-19. Residential customers comprise about 75% of PPL EU's revenues, dampening weakened revenue from industrial and commercial customers after a mandated pandemic-related lockdown.

Outlook: Stable

The stable rating outlook on PPL EU reflects that of parent PPL Corp. (PPL). The stable outlook on PPL and its U.S.-based operations over the next 6 to 18 months reflects our view that the process of completing the sale of its U.K. operations could take until year-end 2021. If there is no sale, our stable outlook will continue to reflect the company's excellent business risk profile, which we view as being at the upper end of the range, and its significant financial risk profile that we believe is near the lower end of its range, including our forecast for adjusted funds from operations (FFO) to debt averaging about 14% in 2020 and 2021. If there is a sale, our stable outlook assumes there is no material increase in PPL's business risk and the company follows through on its financial policy declarations to strengthen its balance sheet and maintain FFO to debt in the midteens percent area.

Downside scenario

If PPL does not sell its U.K. operations, its business risk remains the same, and its core financial ratios weaken such that its adjusted FFO to debt remains consistently below 13%, we could lower our ratings on the company and its U.S.-based operations. Assuming the sale is completed and we continue to assess its business risk profile as excellent, we would lower our ratings on PPL if its FFO to debt falls below 15%.

Upside scenario

Given our assessment of PPL's business risk and our base-case assumptions for its financial performance, we do not anticipate raising our ratings on the utility before it completes the sale of its U.K. operations. However, if a sale does not take place, we could raise our ratings on the company if it achieves adjusted FFO to debt of more than 18% on a consistent basis while maintaining its current level of business risk. We could also raise our ratings on PPL after it completes the sale assuming there is no material increase in its business risk and its adjusted FFO to debt remains consistently above 21%.

Our Base-Case Scenario

Assumptions

- Gross margin averaging about 75% per year, mostly from timely cost recovery of transmission and distribution (T&D) investments and sales growth.
- Gross margin benefits from a distribution system improvement charge and transmission rate formula.
- EBITDA margin averaging about 50% per year.
- Capital spending averaging $1.1 billion per year.
- Dividends averaging about $380 million per year.
- Negative discretionary cash flow, after capital spending and dividends, requiring external funding needs.
- All debt maturities are refinanced.

Key Metrics

PPL Electric Utilities Corp.--Key Metrics

	2020e	2021e	2022e
Adjusted FFO to debt (%)	21-23	20-22	20-22
Adjusted FFO cash interest coverage (x)	6.5-7	6.5-7	6.5-7
Adjusted debt to EBITDA (x)	3.4-3.9	3.5-4	3.5-4

e--estimate. FFO--Funds from operations.

Company Description

PPL EU is an electric T&D utility serving about 1.4 million customers in central and eastern Pennsylvania.

Peer Comparison

Table 1

PPL Electric Utilities Corp.--Peer Comparison

Industry Sector: Electric

	PPL Electric Utilities Corp.	NSTAR Electric Co.	Ohio Power Co.	PECO Energy Co.
Ratings as of Oct. 19, 2020	A-/Stable/A-2	A/Stable/A-1	A-/Stable/--	BBB+/Negative/A-2
	--Fiscal year ended Dec. 31, 2019--			
(Mil. $)				
Revenue	2,358.0	3,044.6	2,797.6	3,100.0
EBITDA	1,167.0	1,043.7	660.2	1,047.0
Funds from operations (FFO)	981.0	831.6	542.3	832.0
Interest expense	170.0	130.1	116.3	141.0
Cash interest paid	154.0	134.3	110.6	133.0
Cash flow from operations	913.0	689.3	429.2	748.0
Capital expenditure	1,121.0	851.0	792.5	935.0
Free operating cash flow (FOCF)	(208)	(161.7)	(363.3)	(187.0)
Discretionary cash flow (DCF)	(694)	(344.5)	(448.3)	(545.0)
Cash and short-term investments	262.0	0.1	3.7	21.0
Debt	3,960.9	3,510.0	2,319.3	3,808.8
Equity	4,832.0	4,181.4	2,508.5	4,178.0
Adjusted ratios				
EBITDA margin (%)	49.5	34.3	23.6	33.8
Return on capital (%)	9.1	8.8	9.5	9.3
EBITDA interest coverage (x)	6.9	8.0	5.7	7.4
FFO cash interest coverage (x)	7.4	7.2	5.9	7.3
Debt/EBITDA (x)	3.4	3.4	3.5	3.6
FFO/debt (%)	24.8	23.7	23.4	21.8
Cash flow from operations/debt (%)	23.1	19.6	18.5	19.6
FOCF/debt (%)	(5.3)	(4.6)	(15.7)	(4.9)

Table 1

PPL Electric Utilities Corp.--Peer Comparison (cont.)

Industry Sector: Electric

	PPL Electric Utilities Corp.	NSTAR Electric Co.	Ohio Power Co.	PECO Energy Co.
DCF/debt (%)	(17.5)	(9.8)	(19.3)	(14.3)

Source: S&P Global Ratings and company data.

Business Risk: Excellent

Our assessment of PPL EU's business risk profile is based on the company's low-risk, fully regulated T&D electric utility operations under Pennsylvania's generally constructive regulatory framework, which provides for timely recovery of approved costs and invested capital. PPL EU has scale since it serves a 1.4 million customer base, yet the utility lacks geographic diversity since it operates only in eastern Pennsylvania. Customer diversity is provided through a high level of residential and commercial customers, providing more stable operating cash flow as compared to the typically more volatile industrial class of customers. The company has a relatively good operating track record given its low-risk, rate-regulated electricity T&D operations that are reliable and safe. PPL EU has a credit-supportive regulatory framework that is stable and generally transparent, using forward test periods and rate surcharge recovery of transmission costs, construction work in progress, storm recovery, and purchased power costs. These mechanisms contribute to reduced regulatory lag and support the utility's ability to earn returns close to authorized returns.

Financial Risk: Significant

Our stand-alone financial risk profile for PPL EU incorporates our base-case scenario of FFO to debt in the 20%-23% range. Our financial risk profile assessment is also supported by adjusted FFO cash interest coverage in the 6.5x-7.0x range. We expect financial measures to remain steady over the forecast period as the company uses cost-recovery mechanisms in its regulatory jurisdiction, as well as due to eventual base rate increases. Ongoing discretionary cash flow deficits, in part from ongoing capital spending and dividends, will require external funding including through debt issuances. The regulated nature of the T&D business provides stable cash flows, which we view as credit supportive. We expect debt leverage to remain modest through 2022 as indicated by adjusted debt to EBITDA in the 3.4x-4.0x range. We use our medial volatility table, which reflects more relaxed benchmarks than those used for most corporate issuers. This reflects the company's steady cash flow, rate-regulated utility operations, and effective regulatory risk management.

Financial summary

Table 2

PPL Electric Utilities Corp.--Financial Summary

Industry Sector: Electric					
	--Fiscal year ended Dec. 31--				
	2019	**2018**	**2017**	**2016**	**2015**
(Mil. $)					
Revenue	2,358.0	2,277.0	2,195.0	2,156.0	2,124.0
EBITDA	1,167.0	999.2	986.3	930.6	785.3
Funds from operations (FFO)	981.0	875.2	854.3	863.6	630.3
Interest expense	170.0	159.0	142.0	129.0	130.0
Cash interest paid	154.0	144.0	128.0	115.0	117.0
Cash flow from operations	913.0	978.0	880.0	872.0	602.0
Capital expenditure	1,121.0	1,196.0	1,254.0	1,134.0	1,107.0
Free operating cash flow (FOCF)	(208)	(218)	(374)	(262)	(505)
Discretionary cash flow (DCF)	(694)	(608)	(710)	(550)	(686)
Cash and short-term investments	262.0	267.0	49.0	13.0	47.0
Gross available cash	262.0	267.0	49.0	13.0	47.0
Debt	3,960.9	3,675.8	3,492.3	3,342.4	3,091.8
Equity	4,832.0	4,461.0	3,992.0	3,391.0	3,119.0
Adjusted ratios					
EBITDA margin (%)	49.5	43.9	44.9	43.2	37.0
Return on capital (%)	9.1	8.2	9.0	10.0	9.3
EBITDA interest coverage (x)	6.9	6.3	6.9	7.2	6.0
FFO cash interest coverage (x)	7.4	7.1	7.7	8.5	6.4
Debt/EBITDA (x)	3.4	3.7	3.5	3.6	3.9
FFO/debt (%)	24.8	23.8	24.5	25.8	20.4
Cash flow from operations/debt (%)	23.1	26.6	25.2	26.1	19.5
FOCF/debt (%)	(5.3)	(5.9)	(10.7)	(7.8)	(16.3)
DCF/debt (%)	(17.5)	(16.5)	(20.3)	(16.5)	(22.2)

Source: S&P Global Ratings and company data.

Reconciliation

Table 3

PPL Electric Utilities Corp.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts

	--Rolling 12 months ended June 30, 2020--									
PPL Electric Utilities Corp. reported amounts (mil. $)										
	Debt	**Shareholders' equity**	**Revenue**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Dividends**	**Capital expenditure**
	4,186.0	4,817.0	2,354.0	1,181.0	780.0	173.0	1,213.0	959.0	517.0	1,144.0
S&P Global Ratings' adjustments										
Cash taxes paid	--	--	--	--	--	--	(32.0)	--	--	--

Table 3

PPL Electric Utilities Corp.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.)

Cash interest paid	--	--	--	--	--	--	(195.0)	--	--	--
Postretirement benefit obligations/deferred compensation	237.9	--	--	--	--	--	--	--	--	--
Accessible cash and liquid investments	(13.0)	--	--	--	--	--	--	--	--	--
Share-based compensation expense	--	--	--	13.0	--	--	--	--	--	--
Nonoperating income (expense)	--	--	--	--	20.0	--	--	--	--	--
EBITDA: Other income/(expense)	--	--	--	24.0	24.0	--	--	--	--	--
EBITDA: Other	--	--	--	(5.0)	(5.0)	--	--	--	--	--
Depreciation and amortization: Other	--	--	--	--	(19.0)	--	--	--	--	--
Total adjustments	224.9	0.0	0.0	32.0	20.0	0.0	(227.0)	0.0	0.0	0.0

S&P Global Ratings' adjusted amounts

	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Dividends	Capital expenditure
	4,410.9	4,817.0	2,354.0	1,213.0	800.0	173.0	986.0	959.0	517.0	1,144.0

Source: S&P Global Ratings and company data.

Liquidity: Adequate

The short-term rating on PPL EU is 'A-2', based on the issuer credit rating. We assess PPL EU's stand-alone liquidity as adequate because we believe its liquidity sources will cover uses by more than 1.1x over the next 12 months and meet cash outflows, even if EBITDA declines 10%. We believe PPL EU has sound banking relationships, the ability to absorb high-impact, low-probability events without the need to refinance, and satisfactory standing in credit markets.

Principal liquidity sources

- Cash and liquid investments of about $15 million;
- Credit facility availability of $650 million; and
- Estimated cash FFO of about $985 million.

Principal liquidity uses

- Debt maturities, including outstanding commercial paper, of about $200 million;
- Capital spending of about $885 million; and
- Dividends of about $370 million.

Environmental, Social, And Governance

Environmental factors are material in our rating analysis. Although PPL is mostly a networks-based utility holding company, including PPL EU's electric T&D operations, credit quality is more negatively influenced by environmental factors as compared to peers. This reflects the Kentucky-based vertically integrated utilities that have generation capacity--about 7,800 megawatts--based on coal and natural gas, which represents an environmental risk factor. By 2050, PPL intends to have reduced its carbon footprint by 70%. In Kentucky, the company is seeking a green energy tariff that would help grow renewable energy. It expects to replace much of its coal-based generation with a combination of natural gas and renewables. Social and governance factors are in line with those of other utility companies.

Group Influence

Under our group rating methodology, we consider PPL EU a core subsidiary of its parent PPL, reflecting our view that PPL EU is highly unlikely to be sold, is integral to the group's overall strategy, possesses a strong long-term commitment from senior management, and is closely linked to the parent's name and reputation. We assess PPL EU's issuer credit rating to be in line with PPL's group credit profile of 'a-'.

Issue Ratings-Recovery Analysis

Key analytical factors

PPL EU's first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of over 1.5x supports a recovery rating of '1+' and an issue rating one notch above the issuer credit rating.

Ratings Score Snapshot

Issuer Credit Rating

A-/Stable/A-2

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/leverage:** Significant

Anchor: a-

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a-

- **Group credit profile:** a-
- **Entity status within group:** Core (no impact)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	**a-**	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of October 22, 2020)*

PPL Electric Utilities Corp.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Secured	A
Issuer Credit Ratings History	
01-Jun-2015	A-/Stable/A-2
10-Jun-2014	BBB/Watch Pos/A-2
15-Apr-2011	BBB/Stable/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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Kentucky Utilities Co.

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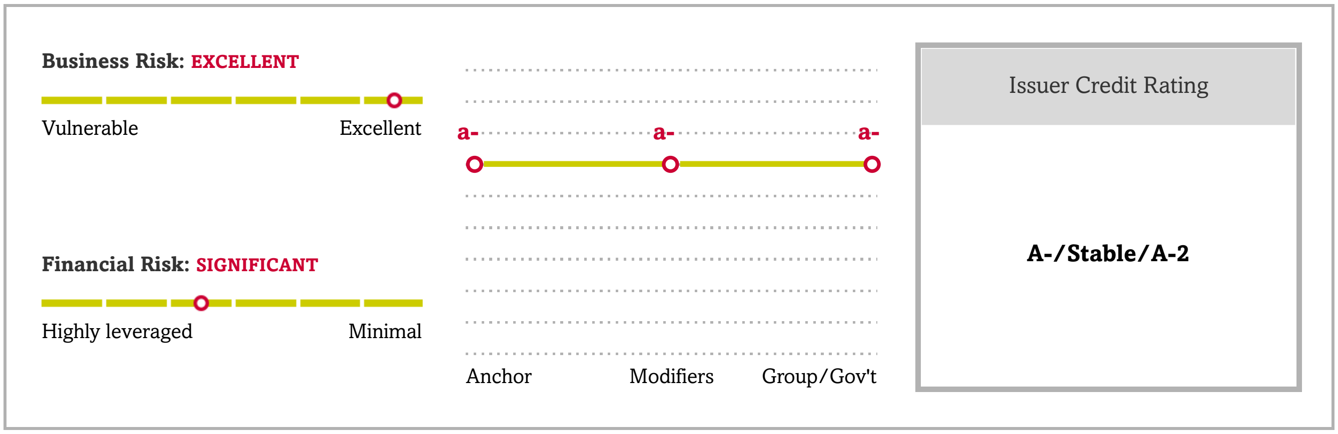
Kentucky Utilities Co.



Credit Highlights

Overview

Key strengths	Key risks
Fully regulated vertically integrated electric utility.	Limited geographic diversity and relatively small customer base.
Constructive and credit supportive regulatory framework.	Moderate operational and environmental risk relating to coal-fired generation.
Financial measures in 2020 benefiting from timely cost recovery mechanisms.	Negative discretionary cash flow, in part reflecting greater capital spending.

Kentucky Utilities Co. (KU) operates under a credit-supportive framework. Kentucky Utilities Co. has a constructive regulatory framework that provides for the timely recovery of approved capital expenditures, as well as pass-through fuel cost mechanisms and various operating expenses recoveries.

Debt leverage remains modest for regulated utilities overall. Over the next few years, we expect debt leverage, as indicated by debt to EBITDA, to remain in the mid- to high-3x range, modest for regulated utilities, in part from timely cost recovery.

Capital spending has remained elevated as a result of environmental compliance. In order to comply with the Environmental Protection Agency's (EPA's) Clean Air Act rules for coal combustion waste and byproducts, we foresee the company continuing into 2020 with slightly lower capital spending than previous years. KU is entitled to cost recovery through an environmental cost recovery mechanism.

Outlook: Stable

The stable rating outlook on KU reflects that of its parent PPL Corp. (PPL) over the next 24 months. We base the outlook on on our assessment of PPL's excellent business risk profile, which is at the upper end of the range, and significant financial risk profile, which is at the lower end of the range. Under S&P Global Ratings' base case scenario, PPL's adjusted funds from operations (FFO) to debt will average about 14%, and adjusted debt to EBITDA will remain elevated at about 5x.

Downside scenario

We could lower the ratings over the next 24 months on PPL and its subsidiaries if core credit ratios weakened such that adjusted FFO to debt consistently stays below 13% and business risk remains unchanged.

Upside scenario

Given our assessment of business risk and our base case scenario for financial performance, we do not anticipate higher ratings during the outlook period. However, we could raise our ratings if PPL achieves adjusted FFO to debt of more than 18% on a consistent basis while maintaining the current level of business risk.

Our Base-Case Scenario

Assumptions

- Gross margin growth in 2020 driven by modest volume growth and ongoing rate recovery for capital spending including on environmental-compliance equipment;
- High average capital spending of $560 million per year for upgrading generation infrastructure to meet environmental standards and for improvements to transmission and distribution assets; and
- All debt maturities refinanced.

Key Metrics

	2020e	2021f	2022f
Adjusted FFO to debt (%)	22-24	19-21	19-21
Adjusted FFO cash interest coverage (X)	6.8-7.2	6.2-6.6	6.0-6.4
Adjusted debt to EBITDA	3.5-3.9	3.5-3.9	3.7-4.1

e--Estimate. f—Forecast. FFO--Funds from operations.

Company Description

KU is a vertically integrated electric utility providing service to about 550,000 customers that are mostly in Kentucky.

Business Risk: Excellent

We assess KU's business risk profile based on the company's regulated integrated utility operations under Kentucky's generally constructive regulatory framework, which provides for the timely recovery of approved capital expenditures.

KU has moderate scale with 550,000 customers and limited geographic diversity because it operates almost entirely in Kentucky. The customer mix is mostly residential and commercial, which can insulate the company from fluctuations in electricity demand and also supports relatively stable operating cash flow.

The company has generation capacity of about 5,000 MW, including sizeable coal-fired capacity. However, KU has been upgrading its coal units to comply with environmental regulations. KU can recover the costs for these upgrades through an environmental cost recovery mechanism, which limits regulatory lag and supports the credit profile. Under Kentucky Public Service Commission regulation, the company benefits from other recovery mechanisms such as a pass-through fuel cost and a purchased-power cost-recovery rider. These mechanisms help stabilize the company's operating cash flow. Moreover, the company's low-cost, coal-fired generation and efficient operations contribute to competitive rates for customers.

Table 1

Kentucky Utilities Co.--Peer Comparison

Industry sector: electric				
	Kentucky Utilities Co.	**Kentucky Power Co.**	**Appalachian Power Co.**	**Louisville Gas & Electric Co.**
Ratings as of March 4, 2020	**A-/Stable/A-2**	**A-/Stable/--**	**A-/Stable/A-2**	**A-/Stable/A-2**
	--Fiscal year ended Dec. 31, 2018--	**--Fiscal year ended Dec. 31, 2018--**	**--Fiscal year ended Dec. 31, 2018--**	**--Fiscal year ended Dec. 31, 2018--**
(Mil. $)				
Revenue	1,760.0	642.1	2,934.8	1,496.0
EBITDA	774.8	203.0	903.2	618.9
Funds from operations (FFO)	650.2	165.8	729.6	533.7
Interest expense	118.6	41.9	206.1	93.8
Cash interest paid	99.5	40.4	186.7	78.2
Cash flow from operations	589.2	118.2	826.7	454.7
Capital expenditure	562.5	134.8	772.3	555.2
Free operating cash flow (FOCF)	26.7	(16.6)	54.4	(100.5)
Discretionary cash flow (DCF)	(219.3)	(16.6)	(105.6)	(256.5)
Cash and short-term investments	14.0	1.2	4.2	10.0
Debt	2,817.7	938.0	4,192.6	2,297.0
Equity	3,442.0	732.9	4,006.1	2,687.0
Adjusted ratios				
EBITDA margin (%)	44.0	31.6	30.8	41.4

Table 1

Kentucky Utilities Co.--Peer Comparison (cont.)

Industry sector: electric

	Kentucky Utilities Co.	Kentucky Power Co.	Appalachian Power Co.	Louisville Gas & Electric Co.
Ratings as of March 4, 2020	**A-/Stable/A-2**	**A-/Stable/--**	**A-/Stable/A-2**	**A-/Stable/A-2**
	--Fiscal year ended Dec. 31, 2018--	**--Fiscal year ended Dec. 31, 2018--**	**--Fiscal year ended Dec. 31, 2018--**	**--Fiscal year ended Dec. 31, 2018--**
Return on capital (%)	7.8	6.5	6.3	8.0
EBITDA interest coverage (x)	6.5	4.8	4.4	6.6
FFO cash interest coverage (x)	7.5	5.1	4.9	7.8
Debt/EBITDA (x)	3.6	4.6	4.6	3.7
FFO/debt (%)	23.1	17.7	17.4	23.2
Cash flow from operations/debt (%)	20.9	12.6	19.7	19.8
FOCF/debt (%)	0.9	(1.8)	1.3	(4.4)
DCF/debt (%)	(7.8)	(1.8)	(2.5)	(11.2)

Source: S&P Global Ratings, company data.

Financial Risk: Significant

Under our base case scenario, we project that KU's adjusted FFO to debt will be in the 22%-24% range, near the upper end the benchmark range. Bolstering the financial risk profile determination is the supplemental ratio of adjusted FFO cash interest coverage in the 6.2x-6.6x range. Over the next few years, we expect credit measures to benefit from the use of regulatory mechanisms to recover its invested capital cost. We expect continued capital spending averaging $560 million per year, when combined with the utility's dividend, will result in discretionary cash flow that is negative. We do expect debt leverage to be relatively modest for a regulated utility as indicated by debt to EBITDA averaging about 3.6x over the next few years.

We assess KU's financial risk profile using our medial volatility table financial benchmarks, which are more relaxed than those used for a the typical corporate issuer. This reflects KU's low-risk regulated electric utility operations, steady cash flow, and effective regulatory risk management.

Table 3

Kentucky Utilities Co.--Financial Summary

Industry sector: electric

	--Fiscal year ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
(Mil. $)					
Revenue	1,760.0	1,744.0	1,749.0	1,728.0	1,737.0
EBITDA	774.8	808.8	807.3	719.4	662.2

Table 3

Kentucky Utilities Co.--Financial Summary (cont.)

Industry sector: electric					
	--Fiscal year ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
Funds from operations (FFO)	650.2	678.2	700.5	723.7	586.9
Interest expense	118.6	115.5	117.6	101.5	91.1
Cash interest paid	99.5	96.6	93.8	79.7	75.3
Cash flow from operations	589.2	641.6	613.5	615.5	573.2
Capital expenditure	562.5	432.5	350.5	519.4	604.0
Free operating cash flow (FOCF)	26.7	209.1	263.0	96.1	(30.8)
Discretionary cash flow (DCF)	(219.3)	(16.9)	15.0	(56.9)	(178.8)
Cash and short-term investments	14.0	15.0	7.0	11.0	11.0
Gross available cash	14.0	15.0	7.0	11.0	11.0
Debt	2,817.7	2,698.4	2,694.1	2,761.7	2,593.3
Equity	3,442.0	3,357.0	3,323.0	3,287.0	3,206.0
Adjusted ratios					
EBITDA margin (%)	44.0	46.4	46.2	41.6	38.1
Return on capital (%)	7.8	8.8	9.1	8.1	8.1
EBITDA interest coverage (x)	6.5	7.0	6.9	7.1	7.3
FFO cash interest coverage (x)	7.5	8.0	8.5	10.1	8.8
Debt/EBITDA (x)	3.6	3.3	3.3	3.8	3.9
FFO/debt (%)	23.1	25.1	26.0	26.2	22.6
Cash flow from operations/debt (%)	20.9	23.8	22.8	22.3	22.1
FOCF/debt (%)	0.9	7.8	9.8	3.5	(1.2)
DCF/debt (%)	(7.8)	(0.6)	0.6	(2.1)	(6.9)

Sources: S&P Global Ratings, company data

Liquidity: Adequate

We assess KU's stand-alone liquidity as adequate because we believe its liquidity sources will likely cover uses by more than 1.1x over the next 12 months and meet cash outflows even if EBITDA declines 10%. We view KU as having sound bank relationships, the ability to absorb high-impact, low probability events without the need for refinancing, and a satisfactory standing in credit markets.

Principal Liquidity Sources	**Principal Liquidity Uses**
• Revolving credit facility availability of $400 million • Estimated cash FFO of $600 million	• Debt maturities of about $500 million • Capital spending of about $560 million • Dividends of about $280 million

Environmental, Social, And Governance

Environmental factors are material in our rating analysis, while social and governance factors are not.

Most of the total generation capacity--about 5,000 megawatts--is coal-fired, representing an environmental risk factor. By 2050, PPL intends to reduce its carbon footprint by 70%. In Kentucky, the company is seeking a green energy tariff that would help grow renewable energy. The company expects to replace much of its coal-based generation with a combination of natural gas and renewables. Social factors are neutral to our ESG assessment and are consistent with what we see across the industry for other publicly traded utilities. Governance factors are also neutral to our ESG assessment and its governance practices are consistent with what we see across the industry for other publicly traded utilities.

Group Influence

Under our group rating methodology we consider KU a core subsidiary of parent PPL, reflecting our view that KU is unlikely to be sold, is integral to the group's overall strategy, possesses a strong long-term commitment from senior management, and is closely linked to the parent's name and reputation. As a result, the issuer credit rating on KU is 'A-', in line with the group credit profile of 'a-'.

Issue Ratings - Subordination Risk Analysis

The short-term rating on KU is 'A-2', based on the issuer credit rating.

Issue Ratings - Recovery Analysis

Key analytical factors

KU's first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's real property, owned or subsequently acquired. Collateral coverage of over 1.5x supports a recovery rating of '1+' and an issue rating one notch above the issuer credit rating.

Reconciliation

Table 3

Reconciliation Of Kentucky Utilities Co. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. $)

Reconciliation Of Kentucky Utilities Co. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. $)							
	--Fiscal year ended Dec. 31, 2018--						
Kentucky Utilities Co. reported amounts							
	Debt	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
	2,556.0	747.0	468.0	100.0	774.8	581.0	562.0
S&P Global Ratings' adjustments							
Cash taxes paid	--	--	--	--	(25.0)	--	--
Cash taxes paid: Other	--	--	--	--	--	--	--
Cash interest paid	--	--	--	--	(95.0)	--	--
Operating leases	32.0	10.0	2.3	2.3	(2.3)	7.7	--
Postretirement benefit obligations/deferred compensation	24.5	--	--	--	--	--	--
Accessible cash and liquid investments	(14.0)	--	--	--	--	--	--
Power purchase agreements	32.4	2.8	2.3	2.3	(2.3)	0.5	0.5
Asset retirement obligations	152.5	12.0	12.0	12.0	--	--	--
Nonoperating income (expense)	--	--	(5.6)	--	--	--	--
Debt: Other	34.4	--	--	--	--	--	--
EBITDA: Other income/(expense)	--	3.0	3.0	--	--	--	--
Depreciation and amortization: Other	--	--	(3.0)	--	--	--	--
Interest expense: Other	--	--	--	2.1	--	--	--
Total adjustments	261.7	27.8	11.0	18.6	(124.5)	8.2	0.5
S&P Global Ratings' adjusted amounts							
	Debt	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditure**
	2,817.7	774.8	479.0	118.6	650.2	589.2	562.5

Sources: S&P Global Ratings, company data.

Ratings Score Snapshot

Issuer Credit Rating

A-/Stable/A-2

Business risk: Excellent

- **Country risk:** Very low

- **Industry risk:** Very low
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/leverage:** Significant

Anchor: a-

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a-

- **Group credit profile:** a-
- **Entity status within group:** Core (no impact)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	**a-**	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of March 20, 2020)*

Kentucky Utilities Co.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Secured	A
Issuer Credit Ratings History	
01-Jun-2015	A-/Stable/A-2
10-Jun-2014	BBB/Watch Pos/A-2
15-Apr-2011	BBB/Stable/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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Kentucky Utilities Co.

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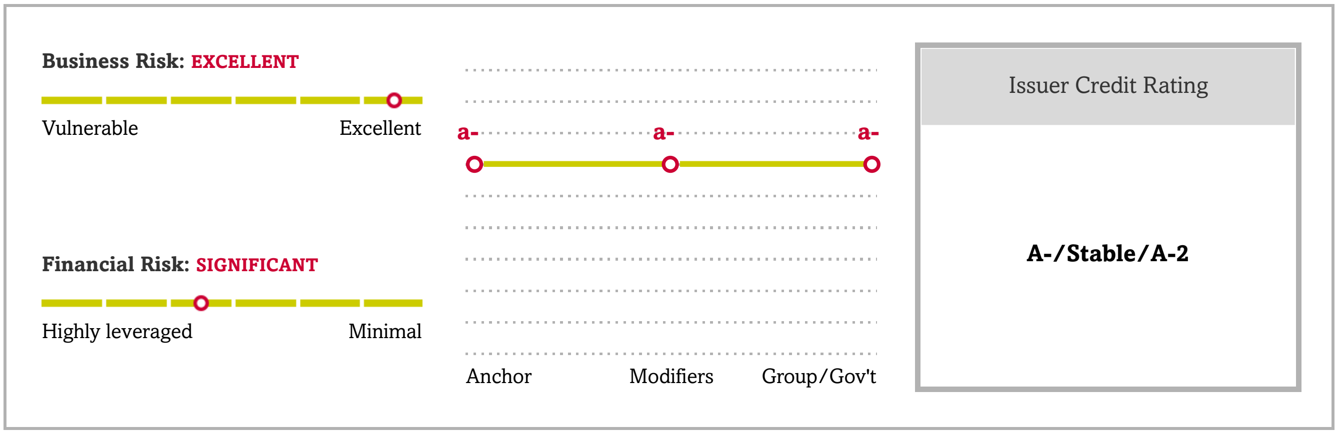
Kentucky Utilities Co.



Credit Highlights

Overview

Key strengths	Key risks
Fully regulated vertically integrated electric utility.	Limited geographic diversity and relatively small customer base.
Constructive and credit supportive regulatory framework.	Moderate operational and environmental risk relating to coal-fired generation.
Financial measures benefitting from timely cost recovery mechanisms.	Negative discretionary cash flow, in part reflecting greater capital spending.

Kentucky Utilities Co. (KU) operates under a credit-supportive framework. KU has a constructive regulatory framework that provides for the timely recovery of approved capital expenditures, as well as pass-through fuel cost mechanisms and various operating expenses recoveries.

Debt leverage remains modest for regulated utilities overall. Over the next few years, we expect debt leverage, as indicated by debt to EBITDA, to remain in the mid- to high-3x range, modest for regulated utilities, in part from timely cost recovery.

Capital spending has remained elevated. We expect slightly higher capital spending than previous years continuing into 2021 for infrastructure upgrades to electric operations including its generation portfolio.

There are pending transactions at ultimate parent company PPL Corp. (PPL). Parent PPL announced it is selling U.K. utility holding company Western Power Distribution PLC (WPD) and its four distribution network operators to National Grid PLC for $10.5 billion, and that will assume WPD's debt of approximately $8.9 billion. Separately, PPL will purchase Narragansett Electric Co. (NECO) from National Grid North America Inc. for $3.8 billion, and PPL will also assume NECO's debt of approximately $1.5 billion. The transactions are expected to close in mid-2021 and end of first-quarter 2022, respectively.

Outlook: Stable

The stable rating outlook on KU reflects that of its ultimate parent PPL over the next 24 months. This is based on our expectation that PPL's consolidated financial measures will remain generally stable throughout the WPD and NECO transactions. We expect funds from operations (FFO) to debt of about 17%, indicating minimal financial cushion from the downgrade threshold.

Downside scenario

We could lower the ratings over the next 24 months on PPL and its subsidiaries if:

- PPL's business risk is unchanged; and
- Core credit ratios weaken such that PPL's adjusted FFO to debt is consistently below 16%.

Upside scenario

Given our assessment of business risk and our base-case scenario for financial performance, we do not anticipate higher ratings during the next 24 months. However, we could raise ratings if:

- PPL's adjusted FFO to debt is consistently more than 21%; and
- It maintains its business risk.

Our Base-Case Scenario

Assumptions

- Gross margin growth in 2021 driven by modest volume growth and ongoing rate recovery for capital spending, including on environmental compliance equipment;
- High average capital spending of $650 million per year for upgrading generation infrastructure to meet environmental standards and to improve transmission and distribution assets; and
- All debt maturities refinanced.

Key Metrics

Table 1

Kentucky Utilities Co.--Key Metrics

	2020a	2021e	2022e
Adjusted FFO to debt (%)	22.6	22.5-23.5	23-24
Adjusted FFO cash interest coverage (x)	7.1	7.5-8	8-8.5

Table 1

Kentucky Utilities Co.--Key Metrics (cont.)			
	2020a	**2021e**	**2022e**
Adjusted debt to EBITDA (x)	3.6	3.5-4	3.5-4

e--Estimate. f—Forecast. FFO--Funds from operations.

Company Description

KU is a vertically integrated electric utility providing service to about 550,000 customers, mostly in Kentucky.

Peer Comparison

Table 2

Kentucky Utilities Co. -- Peer Comparison				
Industry sector: electric				
	Kentucky Utilities Co.	**Kentucky Power Co.**	**Appalachian Power Co.**	**Louisville Gas & Electric Co.**
Ratings as of April 7, 2021	A-/Stable/A-2	A-/Stable/--	A-/Stable/A-2	A-/Stable/A-2
	--Fiscal year ended Dec. 31, 2020--			
(Mil. $)				
Revenue	1,690.0	549.9	2,763.9	1,456.0
EBITDA	830.0	175.5	1,066.7	675.0
FFO	675.8	147.5	854.4	529.3
Interest expense	125.9	41.4	242.5	96.6
Cash interest paid	110.2	40.0	212.3	82.7
Cash flow from operations	554.8	78.0	700.5	490.3
Capital expenditure	510.0	152.7	764.4	456.0
FOCF	44.8	(74.7)	(63.9)	34.3
DCF	(155.2)	(74.7)	(263.9)	(126.7)
Cash and short-term investments	22.0	1.5	5.8	7.0
Debt	2,987.8	1,091.6	5,245.6	2,487.7
Equity	3,782.0	823.3	4,344.3	2,948.0
Adjusted ratios				
EBITDA margin (%)	49.1	31.9	38.6	46.4
Return on capital (%)	7.0	3.9	6.3	7.6
EBITDA interest coverage (x)	6.6	4.2	4.4	7.0
FFO cash interest coverage (x)	7.1	4.7	5.0	7.4
Debt/EBITDA (x)	3.6	6.2	4.9	3.7
FFO/debt (%)	22.6	13.5	16.3	21.3
Cash flow from operations/debt (%)	18.6	7.1	13.4	19.7
FOCF/debt (%)	1.5	(6.8)	(1.2)	1.4

Table 2

Kentucky Utilities Co. -- Peer Comparison (cont.)				
Industry sector: electric				
	Kentucky Utilities Co.	**Kentucky Power Co.**	**Appalachian Power Co.**	**Louisville Gas & Electric Co.**
DCF/debt (%)	(5.2)	(6.8)	(5.0)	(5.1)

FFO--Funds from operations. FOCF--Free operating cash flow. DCF--Discretionary cash flow.

Business Risk: Excellent

We assess KU's business risk profile based on the company's regulated integrated utility operations under Kentucky's generally constructive regulatory framework, which provides for the timely recovery of approved capital expenditures.

KU has moderate scale with 550,000 customers and limited geographic diversity because it operates almost entirely in Kentucky. The customer mix is mostly residential and commercial, which can insulate the company from fluctuations in electricity demand and also supports relatively stable operating cash flow.

The company has generation capacity of about 4,800 megawatts (MW), including sizeable coal-fired capacity. KU has been upgrading coal units to comply with environmental regulations. KU can recover the costs for these upgrades through an environmental cost recovery mechanism, which limits regulatory lag and supports the credit profile. Under Kentucky Public Service Commission regulation, the company benefits from other recovery mechanisms such as a pass-through fuel cost and a purchased-power cost-recovery rider. These mechanisms help stabilize the company's operating cash flow. Moreover, the company's low-cost generation and efficient operations contribute to competitive rates for customers.

Financial Risk: Significant

Under our base-case scenario, we project that KU's adjusted FFO to debt will be 22%-24%, near the upper end the benchmark range. Bolstering the financial risk profile determination is the supplemental ratio of adjusted FFO cash interest coverage of 7.5x-8.5x. Over the next few years, we expect credit measures to benefit from the use of regulatory mechanisms to recover its invested capital cost. We expect continued capital spending averaging $650 million per year, which when combined with the utility's dividend, will result in negative discretionary cash flow. We do expect debt leverage to be relatively modest for a regulated utility as indicated by debt to EBITDA averaging about 3.6x over the next few years.

We assess KU's financial risk profile using our medial volatility financial benchmarks, reflecting lower risk regulated utility operations and effective management of regulatory risk. These benchmarks are more relaxed than those used for typical corporate issuers.

Financial Summary

Table 3

Kentucky Utilities Co. -- Financial Summary

Industry sector: electric	--Fiscal year ended Dec. 31--				
	2020	**2019**	**2018**	**2017**	**2016**
(Mil. $)					
Revenue	1,690.0	1,740.0	1,760.0	1,744.0	1,749.0
EBITDA	830.0	834.0	772.0	808.8	807.3
FFO	675.8	692.7	649.7	678.2	700.5
Interest expense	125.9	123.4	116.3	115.5	117.6
Cash interest paid	110.2	102.3	97.3	96.6	93.8
Cash flow from operations	554.8	564.7	588.7	641.6	613.5
Capital expenditure	510.0	610.0	562.0	432.5	350.5
FOCF	44.8	(45.3)	26.7	209.1	263.0
DCF	(155.2)	(274.3)	(219.3)	(16.9)	15.0
Cash and short-term investments	22.0	12.0	14.0	15.0	7.0
Gross available cash	22.0	12.0	14.0	15.0	7.0
Debt	2,987.8	2,951.6	2,785.3	2,698.4	2,694.1
Equity	3,782.0	3,574.0	3,442.0	3,357.0	3,323.0
Adjusted ratios					
EBITDA margin (%)	49.1	47.9	43.9	46.4	46.2
Return on capital (%)	7.0	7.7	7.8	8.8	9.1
EBITDA interest coverage (x)	6.6	6.8	6.6	7.0	6.9
FFO cash interest coverage (x)	7.1	7.8	7.7	8.0	8.5
Debt/EBITDA (x)	3.6	3.5	3.6	3.3	3.3
FFO/debt (%)	22.6	23.5	23.3	25.1	26.0
Cash flow from operations/debt (%)	18.6	19.1	21.1	23.8	22.8
FOCF/debt (%)	1.5	(1.5)	1.0	7.8	9.8
DCF/debt (%)	(5.2)	(9.3)	(7.9)	(0.6)	0.6

FFO--Funds from operations. FOCF--Free operating cash flow. DCF--Discretionary cash flow.

Reconciliation

Table 4

Kentucky Utilities Co.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts

	--Fiscal year ended Dec. 31, 2020--					
Kentucky Utilities Co. reported amounts (mil. $)						
	Debt	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**
	2,821.0	799.0	453.0	113.0	830.0	543.0
S&P Global Ratings' adjustments						
Cash taxes paid	--	--	--	--	(44.0)	--
Cash interest paid	--	--	--	--	(109.0)	--
Reported lease liabilities	30.0	--	--	--	--	--

Table 4

Kentucky Utilities Co.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.)						
Operating leases	--	13.0	1.2	1.2	(1.2)	11.8
Postretirement benefit obligations/deferred compensation	36.3	--	--	--	--	--
Accessible cash and liquid investments	(22.0)	--	--	--	--	--
Asset-retirement obligations	90.9	10.0	10.0	10.0	--	--
Nonoperating income (expense)	--	--	3.0	--	--	--
Debt: Other	31.6	--	--	--	--	--
EBITDA: Other income/(expense)	--	8.0	8.0	--	--	--
Depreciation and amortization: Other	--	--	(8.0)	--	--	--
Interest expense: Other	--	--	--	1.7	--	--
Total adjustments	166.8	31.0	14.2	12.9	(154.2)	11.8
S&P Global Ratings' adjusted amounts						
	Debt	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**
	2,987.8	830.0	467.2	125.9	675.8	554.8

Liquidity: Adequate

We assess KU's stand-alone liquidity as adequate because we believe its liquidity sources will likely cover uses by more than 1.1x over the next 12 months and meet cash outflows even if EBITDA declines 10%. The assessment also reflects the company's generally prudent risk management, sound relationships with banks, and a generally satisfactory standing in credit markets.

Principal liquidity sources	Principal liquidity uses
• Revolving credit facility availability of $400 million; • Cash and liquid investments of about $20 million; and • Estimated cash FFO of about $675 million.	• Debt maturities of about $335 million; • Capital spending of about $390 million; and • Dividends of $260 million.

Environmental, Social, And Governance

More than one-half of the total generation capacity of about 4,800 MW is coal-fired, representing an environmental risk factor. By 2050, PPL intends to reduce its carbon-based air emissions 80% from 2010 levels. In Kentucky, the company received regulatory approval for a green energy tariff that will allow commercial and industrial customers to choose from several options to meet renewable energy goals. KU expects to replace much of its coal-based generation with a combination of natural gas and renewables. Since 2010, KU along with affiliate Louisville Gas & Electric Co. have retired approximately 1,200 MW of coal-generation plants. Social and governance factors are in line with other regulated utilities.

Group Influence

Under our group rating methodology, we consider KU a core subsidiary of parent PPL. The core status reflects our view that KU is highly unlikely to be sold, has a strong long-term commitment from senior management, is successful at what it does, and contributes meaningfully to the group. Given its core subsidiary status and PPL's group credit profile of 'a-', the issuer credit rating on KU is 'A-'.

Issue Ratings - Subordination Risk Analysis

The short-term rating on KU is 'A-2', based on the issuer credit rating on the company.

Issue Ratings - Recovery Analysis

Key analytical factors

KU's first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of over 1.5x supports a recovery rating of '1+' and an issue rating one notch above the issuer credit rating.

Ratings Score Snapshot

Issuer Credit Rating

A-/Stable/A-2

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/leverage:** Significant

Anchor: a-

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a-

- **Group credit profile:** a-
- **Entity status within group:** Core (no impact)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
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- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	**a-**	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of April 13, 2021)*

Kentucky Utilities Co.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Secured	A
Issuer Credit Ratings History	
01-Jun-2015	A-/Stable/A-2
10-Jun-2014	BBB/Watch Pos/A-2
15-Apr-2011	BBB/Stable/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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Louisville Gas & Electric Co.

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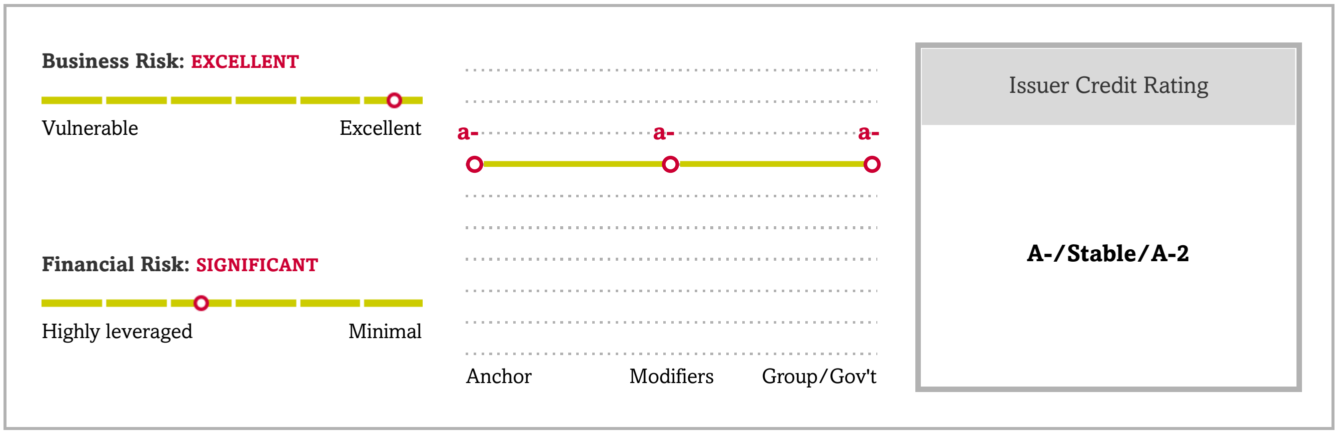
Louisville Gas & Electric Co.



Credit Highlights

Overview

Key strengths	Key risks
Vertically integrated electric and natural gas distribution utility.	Geographic concentration in Louisville, Ky. and modest customer base with limited scale.
The credit-supportive and constructive regulatory environment in Kentucky.	Negative discretionary cash flow after capital spending and dividends.
Balanced capital structure supports overall credit quality.	Generation is subject to environmental-compliance rules.

Kentucky's regulatory environment supports the company's credit quality. Louisville Gas & Electric Co. (LG&E) benefits from mechanisms, such as a gas line tracker and a pass-through fuel cost mechanism, that help stabilize its operating cash flow.

Debt leverage at regulated utilities remains modest. We expect the debt leverage, reflected in debt to EBITDA, of the company's regulated utilities to remain modest in the high-3x to low-4x range over the next few years due, in part, to their timely cost recovery through rate increases.

Capital spending has been high due to environmental compliance. The company has had to increase its capital spending to comply with the Environmental Protection Agency's (EPA) Clean Air Act rules for coal combustion waste and the byproducts created through coal-fired generation. LG&E is entitled to recover these costs through an environmental cost-recovery mechanism.

Outlook: Stable

The stable outlook on LG&E reflects our stable outlook on its parent, PPL Corp., over the next 24 months. The stable outlook on PPL reflects our excellent assessment of its business risk profile, which we consider to be at the stronger end of our range for an excellent assessment. It also incorporates our significant assessment of the company's financial risk profile, which we believe is at the weaker end of our range for a significant assessment. Under our base-case scenario, PPL's adjusted funds from operations (FFO)-to-debt ratio will average about 14% while its adjusted debt to EBITDA remains elevated at about 5x.

Downside scenario

We could lower our ratings on PPL and its subsidiaries over the next 24 months if the company's core credit ratios weaken such that its adjusted FFO to debt remains consistently below 13% without any changes to its business risk.

Upside scenario

Given our assessment of the company's business risk and our base-case assumptions, we do not anticipate raising our ratings on PPL or its subsidiaries over our outlook period. However, we could raise our ratings if PPL improves its adjusted FFO-to-debt ratio to more than 18% on a consistent basis while maintaining its current level of business risk.

Our Base-Case Scenario

Assumptions

- Gross margin improves in 2020 on base-rate increases and cost recovery;
- Gross margin increases in 2021 due to the timely recovery of costs and successful rate cases;
- Higher capital expenditure in 2020 of about $420 million for upgrades to distribution equipment and improvements to generation assets to comply with environmental regulations;
- Annual dividends of about $230 million; and
- All debt maturities are refinanced.

Key Metrics

	2020e	2021f	2022f
FFO to debt (%)	20-22	19-21	19-21
FFO cash interest coverage (x)	6.5-7.1	6.0-6.4	5.7-6.1
Debt to EBITDA (x)	3.6-4.0	3.6-4.0	3.6-4.0

e--Estimate. f--Forecast. FFO--Funds from operations. Note: All figures are S&P-adjusted.

Company Description

LG&E, which operates in and around Louisville, Ky., is a vertically integrated electric utility that serves 400,000 customers and a natural gas distribution utility serving around 320,000 customers.

Business Risk: Excellent

Our assessment of LG&E's business risk profile primarily reflects its regulated utilities, which comprise vertically integrated electric and natural gas distribution operations, and Kentucky's generally constructive regulatory framework.

With a customer base of about 400,000 electric and about 320,000 natural gas customers, LG&E has some scale. In addition, its largely residential and commercial customer base insulates it against fluctuations in demand and stabilizes its cash flows. Our assessment also incorporates the company's moderate operating diversity due to its electric and natural gas operations.

The company has about 3,000 megawatts of generation capacity, which entails greater operating risk than its transmission and distribution operations. The company has been upgrading its coal-fired generation plants to comply with environmental regulations. While the capital costs for these upgrades are significant, LG&E can recover these costs through an environmental cost recovery mechanism, which limits its regulatory lag and supports its credit profile. The company is regulated by the Kentucky Public Service Commission and benefits from other mechanisms, such as a gas line tracker and a pass-through fuel cost mechanism, that help stabilize its returns. Moreover, LG&E's low-cost, coal-fired generation and efficient operations contribute to the overall competitive rates it offers its customers.

Table 1

Peer Comparison

Industry sector: combo

	Louisville Gas & Electric Co.	**Southern Indiana Gas & Electric Co.**	**Wisconsin Public Service Corp.**
Ratings as of Jan. 15, 2019	A-/Stable/A-2	A-/Watch Neg/--	A-/Stable/A-2
	--Fiscal year ended Dec. 31, 2017--		
(Mil. $)			
Revenue	1,453.0	662.0	1,485.4
EBITDA	650.4	252.3	444.0
FFO	551.9	181.6	349.8
Net income from continuing operations	213.0	79.9	154.9
Cash flow from operations	537.2	151.8	529.5
Capital expenditure	459.2	150.0	356.0
Free operating cash flow	78.0	1.8	173.5
Discretionary cash flow	(114.0)	(53.1)	(21.5)

Table 1

Peer Comparison (cont.)

Industry sector: combo

	Louisville Gas & Electric Co.	Southern Indiana Gas & Electric Co.	Wisconsin Public Service Corp.
Cash and short-term investments	15.0	2.3	7.9
Debt	2,154.8	740.6	1,569.0
Equity	2,527.0	873.0	1,617.3
Adjusted ratios			
EBITDA margin (%)	44.8	38.1	29.9
Return on capital (%)	7.6	8.4	7.5
EBITDA interest coverage (x)	7.2	6.8	6.9
FFO cash interest coverage (X)	9.9	6.2	7.3
Debt/EBITDA (x)	3.3	2.9	3.5
FFO/debt (%)	25.6	24.5	22.3
Cash flow from operations/debt (%)	24.9	20.5	33.7
Free operating cash flow/debt (%)	3.6	0.2	11.1
Discretionary cash flow/debt (%)	(5.3)	(7.2)	(1.4)

FFO--Funds from operations.

Financial Risk: Significant

Under our base-case scenario, we expect that LG&E's adjusted FFO to debt will be in the 19%-21% range in 2020 as it no longer experiences the negative effects of U.S. tax reform. Additionally, we foresee some uplift because the company will increase its regular base rate and recovery. This uplift is offset by LG&E's ongoing discretionary cash flow deficits due to its heightened capital expenditure, which we expect it will fund, at least partly, with external debt. We anticipate that the company's debt leverage will remain about 3.8x.

In 2021 and 2022, we anticipate that LG&E's cost recovery and potential rate cases will be offset by its increased capital spending and elevated dividend program, which will slightly weaken its credit measures. We base our risk assessment on our medial volatility table benchmarks, which are more relaxed than the benchmarks we use for a typical corporate issuer. This reflects the company's steady cash flow, rate-regulated utility operations, and effective regulatory risk management.

Table 2

Financial Summary

Industry sector: combo

	--Fiscal year ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
(Mil. $)					
Revenue	1,496.0	1,453.0	1,430.0	1,444.0	1,533.0
EBITDA	618.9	650.4	621.8	564.1	495.0

Table 2

Financial Summary (cont.)					
Industry sector: combo					
	--Fiscal year ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
Funds from operations (FFO)	533.7	555.6	591.4	589.3	382.4
Interest expense	93.8	90.0	90.6	73.9	54.6
Cash interest paid	78.2	72.7	73.4	55.8	47.6
Cash flow from operations	454.7	525.6	494.4	562.3	375.4
Capital expenditure	555.2	459.2	440.2	689.9	656.0
Free operating cash flow (FOCF)	(100.5)	66.4	54.2	(127.6)	(280.6)
Discretionary cash flow (DCF)	(256.5)	(125.6)	(73.8)	(246.6)	(392.6)
Cash and short-term investments	10.0	15.0	5.0	19.0	10.0
Gross available cash	10.0	15.0	5.0	19.0	10.0
Debt	2,297.0	2,132.8	2,082.7	2,109.5	1,779.1
Equity	2,687.0	2,527.0	2,476.0	2,330.0	2,174.0
Adjusted ratios					
EBITDA margin (%)	41.4	44.8	43.5	39.1	32.3
Return on capital (%)	8.0	9.4	9.3	9.0	8.8
EBITDA interest coverage (x)	6.6	7.2	6.9	7.6	9.1
FFO cash interest coverage (x)	7.8	8.6	9.1	11.6	9.0
Debt/EBITDA (x)	3.7	3.3	3.3	3.7	3.6
FFO/debt (%)	23.2	26.1	28.4	27.9	21.5
Cash flow from operations/debt (%)	19.8	24.6	23.7	26.7	21.1
FOCF/debt (%)	(4.4)	3.1	2.6	(6.0)	(15.8)
DCF/debt (%)	(11.2)	(5.9)	(3.5)	(11.7)	(22.1)

Liquidity: Adequate

We assess LG&E's stand-alone liquidity as adequate because we expect its liquidity sources will likely be more than 1.1x its uses over the next 12 months and anticipate that its net sources will remain positive even if its EBITDA declines by 10%. We believe LG&E has sound banking relationships, the ability to absorb high-impact, low-probability events without refinancing, and a satisfactory standing in the credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
• Estimated cash FFO of about $500 million; and • Revolving credit facility availability of $500 million.	• Debt maturities of about $230 million; • Capital spending of about $450 million as of the end of the third quarter; and • Dividends of about $210 million.

Environmental, Social, And Governance

Environmental factors are material to our rating analysis, though social and governance factors are not.

Most of the LG&E's total generation capacity--about 3,000 megawatts--comes from coal, which represents an environmental risk factor. By 2050, PPL intends to reduce its carbon footprint by 70%. In Kentucky, the company is seeking a green energy tariff that would help it expand its renewable energy generation. The company expects to replace much of its coal-based generation with a combination of natural gas and renewables.

Social factors are neutral to our ESG assessment and are consistent with what we see across the industry for other publicly traded utilities. By pursuing greater renewable generation, the company is meeting customer demand for greener energy. Governance factors are also neutral to our ESG assessment and the company's governance practices are consistent with what we see across the industry for other publicly traded utilities.

Group Influence

Under our group rating methodology, we consider LG&E to be a core subsidiary of its parent PPL Corp., which reflects our view that the company is highly unlikely to be sold, is integral to the group's overall strategy, possesses a strong long-term commitment from senior management, and is closely linked to the parent's name and reputation. Therefore, we rate LG&E 'A-', which is in line with our 'a-' group credit profile.

Issue Ratings - Subordination Analysis

Our short-term 'A-2' rating on LG&E is based on our long-term issuer credit rating on the company.

Issue Ratings - Recovery Analysis

Key analytical factors

- LG&E's first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue-level rating one notch above the long-term issuer credit rating.

Reconciliation

Table 3

Reconciliation Of Louisville Gas & Electric Co. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. $)

	--Fiscal year ended Dec. 31, 2018--						
Louisville Gas & Electric Co. reported amounts							
	Debt	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
	2,088.0	580.0	385.0	76.0	618.9	443.0	554.0
S&P Global Ratings' adjustments							
Cash taxes paid	--	--	--	--	(7.0)	--	--
Cash taxes paid: Other	--	--	--	--	--	--	--
Cash interest paid	--	--	--	--	(71.0)	--	--
Operating leases	24.3	12.5	2.0	2.0	(2.0)	10.5	--
Postretirement benefit obligations/deferred compensation	3.2	--	--	--	--	--	--
Accessible cash and liquid investments	(10.0)	--	--	--	--	--	--
Power purchase agreements	73.8	6.4	5.2	5.2	(5.2)	1.2	1.2
Asset retirement obligations	81.4	6.0	6.0	6.0	--	--	--
Nonoperating income (expense)	--	--	(10.0)	--	--	--	--
Debt: Other	36.4	--	--	--	--	--	--
EBITDA: other income/(expense)	--	14.0	14.0	--	--	--	--
Depreciation and amortization: other	--	--	(14.0)	--	--	--	--
Interest expense: Other	--	--	--	4.7	--	--	--
Total adjustments	209.0	38.9	3.2	17.8	(85.2)	11.7	1.2
S&P Global Ratings' adjusted amounts							
	Debt	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditure**
	2,297.0	618.9	388.2	93.8	533.7	454.7	555.2

Ratings Score Snapshot

Issuer Credit Rating

A-/Stable/A-2

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Excellent

Financial risk: Significant

- **Cash flow/leverage:** Significant

Anchor: a-

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a-

- **Group credit profile:** a-
- **Entity status within group:** Core (no impact)

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- ARCHIVE | Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- ARCHIVE | General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- ARCHIVE | Criteria | Insurance | General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	**a-**	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of March 16, 2020)*

Louisville Gas & Electric Co.		
Issuer Credit Rating		A-/Stable/A-2
Commercial Paper		
Local Currency		A-2
Senior Secured		A
Issuer Credit Ratings History		
01-Jun-2015	*Foreign Currency*	A-/Stable/A-2
10-Jun-2014		BBB/Watch Pos/A-2
15-Apr-2011		BBB/Stable/A-2
01-Jun-2015	*Local Currency*	A-/Stable/A-2
10-Jun-2014		BBB/Watch Pos/A-2
15-Apr-2011		BBB/Stable/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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Ratings

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Louisville Gas & Electric Co.

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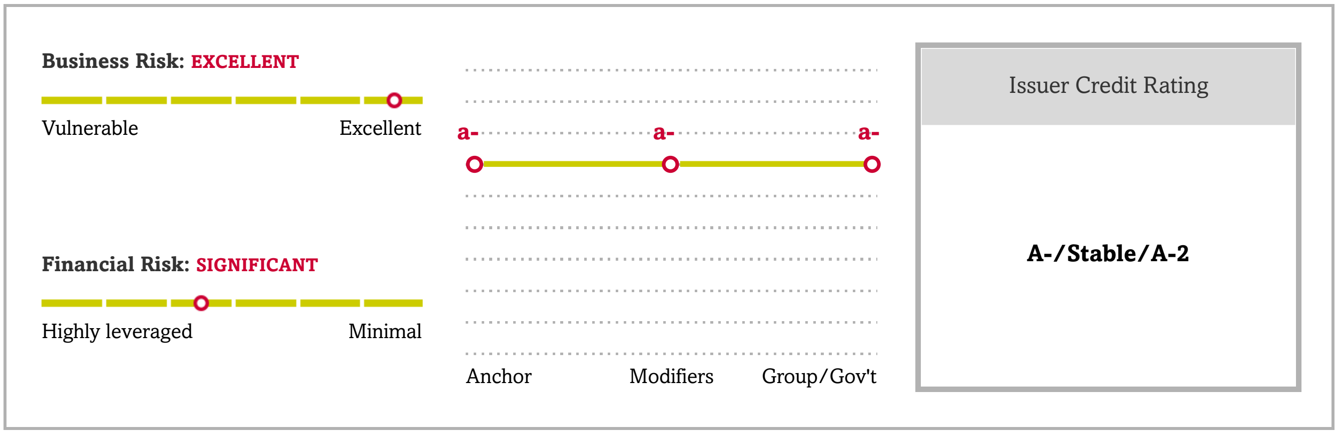
Louisville Gas & Electric Co.



Credit Highlights

Overview

Key strengths	Key risks
Vertically integrated electric and natural gas distribution utility.	Geographic concentration in Louisville, Kentucky and modest customer base with limited scale.
Credit-supportive and constructive regulatory environment in Kentucky.	Negative discretionary cash flow after capital spending and dividends.
Balanced capital structure overall credit quality.	Generation is subject to environmental-compliance rules.

Kentucky's regulatory environment supports Louisville Gas & Electric Co.'s (LG&E's) credit quality. LG&E benefits from mechanisms, such as a gas line tracker and a pass-through fuel cost mechanism, that help stabilize its operating cash flow.

Leverage at regulated utilities remains modest. We expect leverage, reflected in debt to EBITDA, to remain modest in the high-3x area over the next few years, in part because of the timely cost recovery through rate increases.

Capital spending will remain elevated. LG&E is upgrading its gas and electric operations, including its generation portfolio.

There are pending transactions at parent company PPL Corp. PPL announced it is selling U.K. utility holding company Western Power Distribution PLC (WPD) and its four distribution network operators to National Grid PLC for $10.5 billion. National Grid will also assume WPD's debt of about $8.9 billion. Separately, PPL will purchase Rhode Island-based Narragansett Electric Co. (NECO) from National Grid North America Inc. for $3.8 billion. PPL will assume NECO's debt of about $1.5 billion. The transactions are expected to close in mid-2021 and at the end of first-quarter 2022, respectively.

Outlook: Stable

The stable outlook on LG&E reflects our stable outlook on its ultimate parent, PPL, over the next 24 months. We base this on our expectation that PPL's consolidated financial measures will remain generally stable throughout the WPD and NECO transactions. We expect funds from operations (FFO) to debt of about 17%, indicating minimal financial cushion from the downgrade threshold.

Downside scenario

We could lower our ratings on PPL and its subsidiaries over the next 24 months if:

- PPL maintains its business risk; and
- Core credit ratios weaken such that PPL's adjusted FFO to debt is consistently below 16%.

Upside scenario

Given our assessment of business risk and our base-case scenario for financial performance, we do not anticipate higher ratings during the next 24 months. However, we could raise ratings if:

- PPL's adjusted FFO to debt exceeds 21% on a consistent basis; and
- PPL maintains its business risk.

Our Base-Case Scenario

Assumptions

- Gross margin improves in 2021 on base-rate increases and cost recovery;
- Gross margin increases in 2021 because of the timely recovery of costs and successful rate cases;
- Higher capital expenditure in 2021 of about $525 million for upgrades to distribution equipment and improvements to generation assets to comply with environmental regulations;
- Annual dividends of about $200 million-$275 million; and
- All debt maturities are refinanced.

Key metrics

Table 1

Louisville Gas & Electric Co.--Key Metrics*

	2020a	2021f	2022f
FFO to debt (%)	21.2	21-23	23-25

Table 1

Louisville Gas & Electric Co.--Key Metrics* (cont.)

	2020a	2021f	2022f
FFO cash interest coverage (x)	7.4	8-8.5	8.5-9
Debt to EBITDA (x)	3.7	3.5-4	3.5-4

*All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. FFO--Funds from operations.

Company Description

LG&E, which operates in and around Louisville, is a vertically integrated electric utility that serves 400,000 customers and a natural gas distribution utility that serves about 320,000 customers.

Peer Comparison

Table 2

Louisville Gas & Electric Co.--Peer Comparison

Industry sector: Combo

	Louisville Gas & Electric Co.	Southern Indiana Gas & Electric Co.	Wisconsin Public Service Corp.
Ratings as of April 7, 2021	A-/Stable/A-2	BBB+/Stable/--	A-/Stable/A-2
	--Fiscal year ended Dec. 31, 2020--		
(Mil. $)			
Revenue	1,456.0	654.0	1,407.1
EBITDA	675.0	244.2	495.8
Funds from operations (FFO)	529.3	237.8	443.5
Interest expense	96.6	34.7	72.1
Cash interest paid	82.7	37.7	69.2
Cash flow from operations	490.3	276.3	451.8
Capital expenditure	456.0	293.6	529.1
Free operating cash flow (FOCF)	34.3	(17.3)	(77.3)
Discretionary cash flow (DCF)	(126.7)	(86.3)	(337.3)
Cash and short-term investments	7.0	2.7	2.7
Debt	2,487.7	1,008.6	1,900.4
Equity	2,948.0	1,084.3	2,116.7
Adjusted ratios			
EBITDA margin (%)	46.4	37.3	35.2
Return on capital (%)	7.6	6.5	8.4
EBITDA interest coverage (x)	7.0	7.0	6.9
FFO cash interest coverage (x)	7.4	7.3	7.4
Debt/EBITDA (x)	3.7	4.1	3.8
FFO/debt (%)	21.3	23.6	23.3
Cash flow from operations/debt (%)	19.7	27.4	23.8

Table 2

Louisville Gas & Electric Co.--Peer Comparison (cont.)

Industry sector: Combo

	Louisville Gas & Electric Co.	Southern Indiana Gas & Electric Co.	Wisconsin Public Service Corp.
FOCF/debt (%)	1.4	(1.7)	(4.1)
DCF/debt (%)	(5.1)	(8.6)	(17.7)

Business Risk: Excellent

Our assessment of LG&E's business risk profile primarily reflects its regulated operations that comprise vertically integrated electric and natural gas distribution utilities, as well as Kentucky's generally constructive regulatory framework.

With a customer base of about 400,000 electric and about 320,000 natural gas customers, LG&E has some scale. In addition, its largely residential and commercial customer base insulates it against fluctuations in demand and stabilizes its cash flow. Our assessment also incorporates the company's moderate operating diversity that results from its electric and natural gas operations.

The company has about 2,800 megawatts (MW) of generation capacity, including sizable coal-fired capacity, with greater operating risk than its transmission and distribution operations. The company has been upgrading coal-fired generation plants to comply with environmental regulations. While the capital costs for these upgrades are significant, LG&E can recover these costs through the environmental cost recovery mechanism, which limits its regulatory lag and supports its credit profile. The company is regulated by the Kentucky Public Service Commission and benefits from other mechanisms, such as a gas line tracker and a pass-through fuel cost mechanism, which help stabilize its operating cash flow. Moreover, LG&E's low-cost generation and efficient operations contribute to the overall competitive rates it offers its customers.

Financial Risk: Significant

Under our base-case scenario, we expect LG&E's adjusted FFO to debt will be 21%-23% in 2021. We expect some uplift as the company benefits from recovery mechanisms such as the environmental cost rider, as well as formulaic transmission rates and forward test years for rate cases. This uplift is offset by LG&E's ongoing discretionary cash flow deficits because of its heightened capital spending that we expect will be at least partly debt funded. We anticipate that the company's leverage will remain in the mid-3x area through 2023, which is relatively modest for a regulated utility. Bolstering the financial risk profile determination is the supplemental ratio of FFO cash interest coverage that we expect will average 8.5x annually over the next three years. In 2022 and 2023, we anticipate that LG&E's cost recovery and potential rate cases will be offset by its increased capital spending and elevated dividend program, which will slightly weaken its credit measures.

We assess LG&E's financial risk profile using our medial volatility financial benchmarks, reflecting lower-risk, regulated utility operations and effective management of regulatory risk. These benchmarks are more relaxed than those we use for typical corporate issuers.

Financial summary

Table 3

Louisville Gas & Electric Co.--Financial Summary

Industry sector: Combo	--Fiscal year ended Dec. 31--				
	2020	2019	2018	2017	2016
(Mil. $)					
Revenue	1,456.0	1,500.0	1,496.0	1,453.0	1,430.0
EBITDA	675.0	657.0	612.5	650.4	621.8
Funds from operations (FFO)	529.3	577.2	532.5	555.6	591.4
Interest expense	96.6	98.4	88.7	90.0	90.6
Cash interest paid	82.7	77.8	73.0	72.7	73.4
Cash flow from operations	490.3	503.2	453.5	525.6	494.4
Capital expenditure	456.0	482.0	554.0	459.2	440.2
Free operating cash flow (FOCF)	34.3	21.2	(100.5)	66.4	54.2
Discretionary cash flow (DCF)	(126.7)	(160.8)	(256.5)	(125.6)	(73.8)
Cash and short-term investments	7.0	15.0	10.0	15.0	5.0
Gross available cash	7.0	15.0	10.0	15.0	5.0
Debt	2,487.7	2,347.2	2,223.2	2,132.8	2,082.7
Equity	2,948.0	2,762.0	2,687.0	2,527.0	2,476.0
Adjusted ratios					
EBITDA margin (%)	46.4	43.8	40.9	44.8	43.5
Return on capital (%)	7.6	7.8	8.0	9.4	9.3
EBITDA interest coverage (x)	7.0	6.7	6.9	7.2	6.9
FFO cash interest coverage (x)	7.4	8.4	8.3	8.6	9.1
Debt/EBITDA (x)	3.7	3.6	3.6	3.3	3.3
FFO/debt (%)	21.3	24.6	24.0	26.1	28.4
Cash flow from operations/debt (%)	19.7	21.4	20.4	24.6	23.7
FOCF/debt (%)	1.4	0.9	(4.5)	3.1	2.6
DCF/debt (%)	(5.1)	(6.9)	(11.5)	(5.9)	(3.5)

Reconciliation

Table 4

Louisville Gas & Electric Co.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts

	--Fiscal year ended Dec. 31, 2020--					
Louisville Gas & Electric Co. reported amounts (mil. $)						
	Debt	EBITDA	Operating income	Interest expense	S&P Global Ratings' adjusted EBITDA	Cash flow from operations
	2,269.0	653.0	394.0	87.0	675.0	483.0

Table 4

Louisville Gas & Electric Co.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.)

S&P Global Ratings' adjustments						
Cash taxes paid	--	--	--	--	(63.0)	--
Cash interest paid	--	--	--	--	(82.0)	--
Reported lease liabilities	21.0	--	--	--	--	--
Operating leases	--	8.0	0.7	0.7	(0.7)	7.3
Postretirement benefit obligations/deferred compensation	110.6	--	--	--	--	--
Accessible cash and liquid investments	(7.0)	--	--	--	--	--
Asset-retirement obligations	52.9	5.0	5.0	5.0	--	--
Nonoperating income (expense)	--	--	(1.0)	--	--	--
Debt: Other	41.2	--	--	--	--	--
EBITDA: Other income/(expense)	--	9.0	9.0	--	--	--
Depreciation and amortization: Other	--	--	(9.0)	--	--	--
Interest expense: Other	--	--	--	3.9	--	--
Total adjustments	218.7	22.0	4.7	9.6	(145.7)	7.3
S&P Global Ratings' adjusted amounts						
	Debt	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**
	2,487.7	675.0	398.7	96.6	529.3	490.3

Liquidity: Adequate

We assess LG&E's stand-alone liquidity as adequate because we expect its liquidity sources will likely cover uses by more than 1.1x over the next 12 months and meet cash outflow even if EBITDA declines 10%. The assessment also reflects the company's generally prudent risk management, sound relationships with banks, and a generally satisfactory standing in the credit markets.

Principal liquidity sources	Principal liquidity uses
• Estimated cash FFO of about $550 million; • Cash and liquid investments of about $5 million; and • Revolving credit facility availability of $500 million.	• Debt maturities of about $560 million; • Capital spending of about $260 million; and • Dividends of about $20 million.

Environmental, Social, And Governance

Most of the utility's total generation capacity--of about 2,800 MW--is coal-fired, which represents an environmental risk factor. By 2050, PPL intends to reduce its carbon-based air emissions by 80% from 2010 levels. Since 2010, LG&E, along with affiliate Kentucky Utilities Co. (KU) have retired about 1,200 MW of coal-generation plants. In Kentucky, LG&E received regulatory approval for a green-energy tariff that will provide an opportunity for commercial and industrial customers to choose from several options to meet renewable energy goals. The company expects to replace much of its coal-based generation with a combination of natural gas and renewables. By pursuing greater renewable generation, LG&E is meeting customer demand for greener energy.

Social and governance factors are in line with those of other regulated utilities.

Group Influence

Under our group rating methodology, we consider LG&E to be a core subsidiary of parent PPL. The core status reflects our view that LG&E is highly unlikely to be sold, has a strong long-term commitment from senior management, is successful at what it does, and contributes meaningfully to the group. Given its core subsidiary status and PPL's group credit profile of 'a-', our issuer credit rating on LG&E is 'A-'.

Issue Ratings - Subordination Analysis

We base our short-term 'A-2' rating on LG&E on our long-term issuer credit rating on the company.

Issue Ratings - Recovery Analysis

Key analytical factors

- LG&E's first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue-level rating one notch above the long-term issuer credit rating.

Ratings Score Snapshot

Issuer Credit Rating

A-/Stable/A-2

Business risk: Excellent

- **Country risk:** Very low

- **Industry risk:** Very low
- **Competitive position:** Excellent

Financial risk: Significant

- **Cash flow/leverage:** Significant

Anchor: a-

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a-

- **Group credit profile:** a-
- **Entity status within group:** Core (no impact)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	**a-**	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of April 13, 2021)*

Louisville Gas & Electric Co.		
Issuer Credit Rating		A-/Stable/A-2
Commercial Paper		
Local Currency		A-2
Senior Secured		A
Issuer Credit Ratings History		
01-Jun-2015	*Foreign Currency*	A-/Stable/A-2
10-Jun-2014		BBB/Watch Pos/A-2
15-Apr-2011		BBB/Stable/A-2
01-Jun-2015	*Local Currency*	A-/Stable/A-2
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15-Apr-2011		BBB/Stable/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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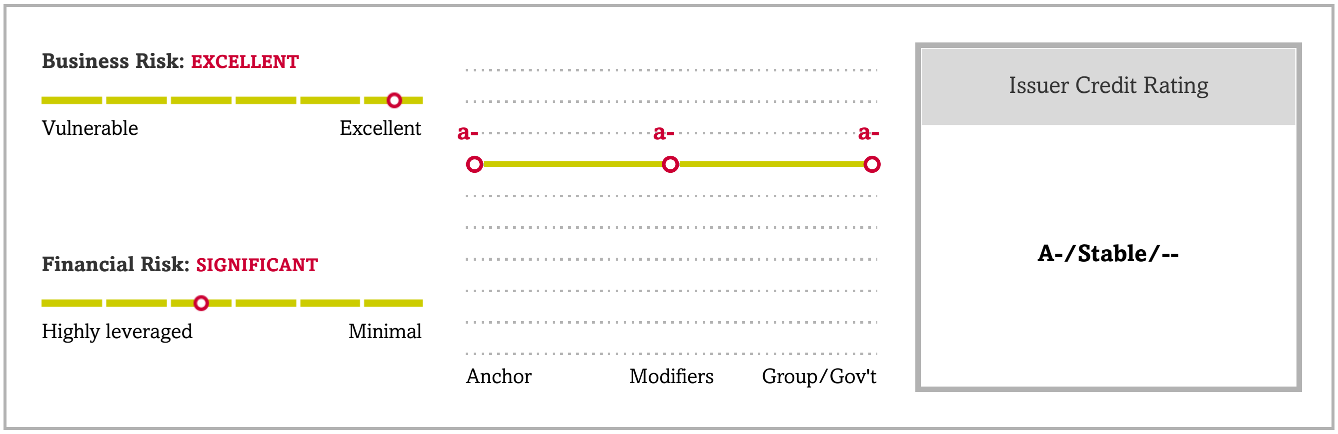
LG&E And KU Energy LLC



Credit Highlights

Overview

Key strengths	Key risks
Regulated, vertically integrated electric and natural gas distribution operations in Kentucky.	Generation capacity currently about 70% coal-fired and natural gas.
Generally constructive and stable regulatory framework.	Lower cash flow measures after flowing through U.S. tax-reform-related rate credits.
Balanced capital structure that supports the financial risk profile.	Elevated capital spending in part for environmental compliance.
	Geographic concentration mostly in Kentucky and customer base of about 1.3 million.

LG&E and KU Energy LLC (LKE) utilities operate under a credit-supportive regulatory framework. LKE's utilities benefit from numerous regulatory mechanisms including projected test periods; rate riders for environmental investment cost recovery, purchased power, fuel, and natural gas; and formulaic transmission rates.

LKE's debt leverage will remain elevated. We expect debt leverage, as indicated by debt to EBITDA, to remain elevated in the low-5x area over the next few years.

Capital spending will remain elevated due to environmental compliance spending. Environmental compliance requirements regarding coal-combustion waste and its byproducts are driving elevated capital spending.

Outlook: Stable

The stable rating outlook on LKE reflects that of its parent PPL Corp. (PPL) over the next 24 months. We base the outlook on our assessment of PPL's excellent business risk profile, which is at the upper end of the range, and significant financial risk profile, which is at the lower end of the range. Under S&P Global Ratings' base case scenario, PPL's adjusted funds from operations (FFO) to debt will average about 14%, and adjusted debt to EBITDA will remain elevated at about 5x.

Downside scenario

We could lower the ratings on PPL and its subsidiaries over the next 24 months if core credit ratios weakened such that adjusted FFO to debt consistently stays below 13% and business risk remains unchanged.

Upside scenario

Given our assessment of business risk and our base case scenario for financial performance, we do not anticipate higher ratings during the outlook period. However, we could raise our ratings if PPL achieves adjusted FFO to debt of more than 18% on a consistent basis while maintaining the current level of business risk.

Our Base-Case Scenario

Assumptions

- Gross margin averages about 70% per year after growth and cost recovery through various rate mechanisms.
- EBITDA margin is roughly 40% per year.
- Capital spending averages about $1 billion for generation upgrades and transmission investments.
- Dividends of about $300 million per year
- Discretionary cash flow is negative, requiring external funding.
- All debt maturities are refinanced.

Key Metrics

	2020e	2021f	2022f
Adjusted FFO to debt (%)	14-16	13.5-15.5	13-15
Adjusted FFO cash interest coverage (x)	4.7-5.3	4.4-5.1	4.2-4.9
Adjusted debt to EBITDA (x)	5-5.5	5-5.5	5.2-5.7

e--Estimate. f—--Forecast. FFO--Funds from operations.

Company Description

LKE is an intermediate holding company that owns two utilities providing electric and natural gas utility service to 1.3 million customers, primarily in Kentucky.

Business Risk: Excellent

Our assessment of LKE's business risk profile incorporates the business strengths of its wholly owned subsidiaries Louisville Gas & Electric Co. (LG&E) and Kentucky Utilities Co. (KU). These utilities provide regulated, vertically integrated electric and natural gas distribution services primarily across Kentucky, with smaller service territories in Tennessee and Virginia. The geographic concentration in Kentucky is partly offset by the large customer base of about 1.3 million electric and natural gas customers. The company's customer base consists mostly of residential and commercial customers, mitigating the impact of fluctuations in demand and resulting in stable and predictable cash flows.

Moreover, the company benefits from numerous regulatory mechanisms, including forecast test years, environmental investment cost recovery, purchased power, fuel, and gas surcharges, and formulaic transmission rates. The utilities' low rates are derived from relatively safe and reliable coal-fired generation and regulatory lag is partly limited by the timely recovery of costs.

Peer comparison

Table 1

Peer Comparison				
Industry sector: electric				
	LG&E and KU Energy LLC	**Integrys Holding Inc.**	**NV Energy Inc.**	**Evergy Inc.**
Ratings as of March 4, 2020	**A-/Stable/--**	**A-/Stable/A-2**	**A/Stable/-**	**A-/Stable/A-2**
	--Fiscal year ended Dec. 31, 2018--	**--Fiscal year ended Dec. 31, 2018--**	**--Fiscal year ended Dec. 31, 2018--**	**--Fiscal year ended Dec. 31, 2018--**
(Mil. $)				
Revenue	3,214.0	3,344.7	3,039.2	4,275.9
EBITDA	1,372.1	992.4	1,119.5	1,696.9
Funds from operations (FFO)	1,096.3	834.8	846.7	1,414.4
Interest expense	267.6	185.6	275.9	339.7
Cash interest paid	229.9	156.5	272.9	283.4
Cash flow from operations	935.3	927.0	940.6	1,508.9
Capital expenditure	1,118.7	1,173.8	520.2	1,065.6
Free operating cash flow (FOCF)	(183.4)	(246.9)	420.4	443.3
Discretionary cash flow (DCF)	(485.4)	(246.9)	420.4	(1,074.0)
Cash and short-term investments	24.0	24.7	223.0	160.3
Debt	6,869.2	4,216.5	4,813.7	9,559.5
Equity	4,723.0	3,989.6	3,930.1	9,990.7
Adjusted ratios				
EBITDA margin (%)	42.7	29.7	36.8	39.7

Table 1

Peer Comparison (cont.)				
Industry sector: electric				
	LG&E and KU Energy LLC	**Integrys Holding Inc.**	**NV Energy Inc.**	**Evergy Inc.**
Ratings as of March 4, 2020	**A-/Stable/--**	**A-/Stable/A-2**	**A/Stable/-**	**A-/Stable/A-2**
	--Fiscal year ended Dec. 31, 2018--	**--Fiscal year ended Dec. 31, 2018--**	**--Fiscal year ended Dec. 31, 2018--**	**--Fiscal year ended Dec. 31, 2018--**
Return on capital (%)	7.4	7.8	7.6	6.3
EBITDA interest coverage (x)	5.1	5.3	4.1	5.0
FFO cash interest coverage (x)	5.8	6.3	4.1	6.0
Debt/EBITDA (x)	5.0	4.2	4.3	5.6
FFO/debt (%)	16.0	19.8	17.6	14.8
Cash flow from operations/debt (%)	13.6	22.0	19.5	15.8
FOCF/debt (%)	(2.7)	(5.9)	8.7	4.6
DCF/debt (%)	(7.1)	(5.9)	8.7	(11.2)

Source: S&P Global Ratings, company data.

Financial Risk: Significant

Under our base case scenario, we anticipate that LKE's stand-alone adjusted FFO to debt will be in the 14%-16% range in 2019. Over the next few years, we expect FFO to debt to improve to the 16%-18% range as the company benefits from recovery mechanisms like the environmental cost rider, as well as formulaic transmission rates and forward test years for rate cases. We expect adjusted debt to EBITDA to be in 4.5x-5x range, indicating debt leverage within the benchmark range of an aggressive financial risk profile.

We utilize our medial volatility table, which reflects more relaxed benchmarks as compared to most corporate issuers. This reflects the company's steady cash flow and rate-regulated utility operations and effective regulatory risk management.

Table 2

LG&E and KU Energy LLC -- Financial Summary					
Industry Sector: Electric					
	--Fiscal year ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
(Mil. $)					
Revenue	3,214.0	3,156.0	3,141.0	3,115.0	3,168.0
EBITDA	1,372.1	1,452.1	1,418.6	1,286.3	1,148.9
Funds from operations (FFO)	1,096.3	1,187.7	1,231.5	1,249.8	1,053.5
Interest expense	267.6	253.6	255.1	217.5	200.4

Table 2

LG&E and KU Energy LLC -- Financial Summary (cont.)

Industry Sector: Electric					
	--Fiscal year ended Dec. 31--				
	2018	**2017**	**2016**	**2015**	**2014**
Cash interest paid	229.9	216.5	211.1	175.5	170.4
Cash flow from operations	935.3	1,120.7	1,047.5	1,079.8	1,022.5
Capital expenditure	1,118.7	893.7	792.7	1,211.3	1,273.5
Free operating cash flow (FOCF)	(183.4)	227.0	254.8	(131.5)	(251.0)
Discretionary cash flow (DCF)	(485.4)	(175.0)	(61.2)	(350.5)	(687.0)
Cash and short-term investments	24.0	30.0	13.0	30.0	21.0
Gross available cash	24.0	30.0	13.0	30.0	21.0
Debt	6,869.2	6,503.0	6,294.8	6,321.1	5,834.9
Equity	4,723.0	4,563.0	4,667.0	4,517.0	4,248.0
Adjusted ratios					
EBITDA margin (%)	42.7	46.0	45.2	41.3	36.3
Return on capital (%)	7.4	8.7	8.7	8.1	7.7
EBITDA interest coverage (x)	5.1	5.7	5.6	5.9	5.7
FFO cash interest coverage (x)	5.8	6.5	6.8	8.1	7.2
Debt/EBITDA (x)	5.0	4.5	4.4	4.9	5.1
FFO/debt (%)	16.0	18.3	19.6	19.8	18.1
Cash flow from operations/debt (%)	13.6	17.2	16.6	17.1	17.5
FOCF/debt (%)	(2.7)	3.5	4.0	(2.1)	(4.3)
DCF/debt (%)	(7.1)	(2.7)	(1.0)	(5.5)	(11.8)

Sources: S&P Global Ratings, company data.

Liquidity: Adequate

We assess LKE's stand-alone liquidity as adequate because we believe its liquidity sources will likely cover uses by more than 1.1x over the next 12 months and meet cash outflows even if EBITDA declines 10%.

We believe LKE has sound banking relationships, the ability to absorb high-impact, low probability events without the need for refinancing, and a satisfactory standing in the credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
• Combined revolving credit facility availability of $975 million. • Estimated cash FFO of about $1 billion.	• Capital spending of approximately $1.3 billion. • Dividends of $282 million. • Debt maturities of $618 million.

Environmental, Social, And Governance

LKE's credit quality is more negatively influenced by environmental risk factors than peers given its significant exposure to coal-based power generation through utilities LG&E and KU. Most of the total generation capacity--about 8,000 MW--is from coal and natural gas. In Kentucky, the company is seeking a green energy tariff that would provide renewable energy incentives. Over the longer term, the company expects to replace much of its coal-based generation with a combination of natural gas and renewable generation. Social factors are neutral to our ESG assessment and are consistent with what we see across the industry for other publicly traded utilities. Governance factors are also neutral to our ESG assessment and the company's governance practices are consistent with what we see across the industry for other publicly traded utilities.

Group Influence

Under our group rating methodology, we consider LKE a core subsidiary of parent PPL Corp., reflecting our view the LKE is highly unlikely to be sold, is integral to the group's overall strategy, possesses a strong long-term commitment from senior management, and is closely linked to the parent's name and reputation. We assess the issuer credit rating on LKE as 'A-', in line with PPL's group credit profile of 'a-'.

Issue Ratings - Subordination Risk Analysis

Capital structure

LKE's capital structure consists of about $5 billion of debt of which priority debt is about $4 billion.

Analytical conclusions

The unsecured debt at LKE is rated one notch below the issuer credit rating because priority debt exceeds 50% of the company's consolidated debt, after which, LKE's debt could be considered structurally subordinated.

Reconciliation

Table 3

Reconciliation Of LG&E And KU Energy LLC Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. $)

	--Fiscal year ended Dec. 31, 2019--					
LG&E and KU Energy LLC reported amounts						
	Debt	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**
	6,539.0	1,388.0	841.0	257.0	1,466.0	938.0
S&P Global Ratings' adjustments						
Cash taxes paid	--	--	--	--	(29.0)	--

Table 3

Reconciliation Of LG&E And KU Energy LLC Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. $) (cont.)

Cash taxes paid: Other	--	--	--	--	--	--
Cash interest paid	--	--	--	--	(237.0)	--
Reported lease liabilities	55.0	--	--	--	--	--
Operating leases	--	25.0	2.2	2.2	(2.2)	22.8
Postretirement benefit obligations/deferred compensation	222.0	--	--	--	--	--
Accessible cash and liquid investments	(27.0)	--	--	--	--	--
Share-based compensation expense	--	9.0	--	--	--	--
Asset retirement obligations	169.9	17.0	17.0	17.0	--	--
Nonoperating income (expense)	--	--	(13.0)	--	--	--
Debt: Other	(35.0)	--	--	--	--	--
EBITDA: Other income/(expense)	--	27.0	27.0	--	--	--
Depreciation and amortization: Other	--	--	(27.0)	--	--	--
Total adjustments	384.8	78.0	6.2	19.2	(268.2)	22.8
S&P Global Ratings' adjusted amounts						
	Debt	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**
	6,923.8	1,466.0	847.2	276.2	1,197.8	960.8

Sources: S&P Global Ratings, company data.

Ratings Score Snapshot

Issuer Credit Rating

A-/Stable/--

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Excellent

Financial risk: Significant

- **Cash flow/leverage:** Significant

Anchor: a-

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)

- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a-

- **Group credit profile:** a-
- **Entity status within group:** Core (no impact)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	**a-**	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of March 20, 2020)*	
LG&E and KU Energy LLC	
Issuer Credit Rating	A-/Stable/--
Senior Unsecured	BBB+
Issuer Credit Ratings History	
01-Jun-2015	A-/Stable/--
10-Jun-2014	BBB/Watch Pos/--
15-Apr-2011	BBB/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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LG&E and KU Energy LLC

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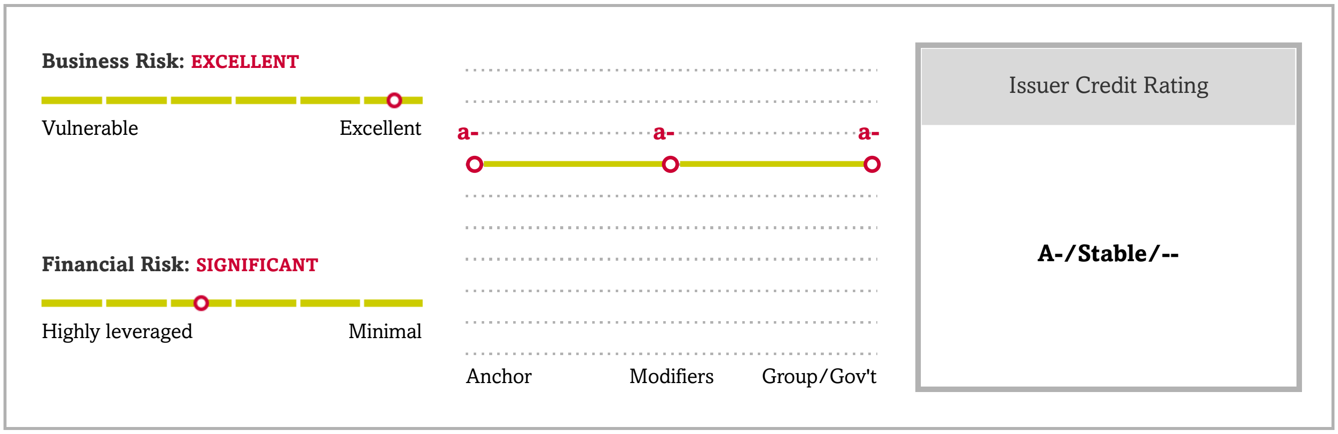
LG&E and KU Energy LLC



Credit Highlights

Overview

Key strengths	Key risks
Regulated, vertically integrated electric and natural gas distribution operations in Kentucky.	Generation capacity is about 70% coal-fired and natural gas.
Generally constructive and stable regulatory framework.	Lower cash flow measures after flowing through U.S. tax-reform-related rate credits.
Balanced capital structure that supports the financial risk profile.	Elevated capital spending in part for environmental compliance.
	Geographic concentration mostly in Kentucky and customer base of about 1.3 million.

LG&E and KU Energy LLC's (LKE's) utilities operate under a credit-supportive regulatory framework. LKE's utilities benefit from numerous regulatory mechanisms, including projected test periods; rate riders for environmental investment cost recovery, purchased power, fuel, and natural gas; and, formulaic transmission rates.

LKE's leverage will remain elevated. We expect leverage, as indicated by debt to EBITDA, to remain elevated in the high-4x area over the next few years.

Capital spending will remain elevated. LKE is upgrading its gas operations and electric operations, including its generation portfolio.

There are pending transactions at parent company PPL Corp. PPL announced it is selling U.K. utility holding company Western Power Distribution PLC (WPD) and its four distribution network operators to National Grid PLC for $10.5 billion. National Grid will also assume WPD's debt of about $8.9 billion. Separately, PPL will purchase Narragansett Electric Co. (NECO) from National Grid North America Inc. for $3.8 billion. PPL will assume NECO's debt of about $1.5 billion. The transactions are expected to close in mid-2021 and at the end of first-quarter 2022, respectively.

Outlook: Stable

The stable outlook on LKE reflects that of its parent, PPL, over the next 24 months. We base this on our expectation that PPL's consolidated financial measures will remain generally stable throughout the WPD and NECO transactions. We expect funds from operations (FFO) to debt of about 17%, indicating minimal financial cushion from the downgrade threshold.

Downside scenario

We could lower the ratings on PPL and its subsidiaries over the next 24 months if:

- PPL maintains its business risk; and
- Core credit ratios weaken such that PPL's adjusted FFO to debt is consistently below 16%.

Upside scenario

Given our assessment of business risk and our base-case scenario for financial performance, we do not anticipate higher ratings during the next 24 months. However, we could raise ratings if:

- PPL's adjusted FFO to debt exceeds 21% on a consistent basis; and
- PPL maintains its business risk.

Our Base-Case Scenario

Assumptions

- Gross margin of about 75% per year after growth and cost recovery through various rate mechanisms;
- EBITDA margin is about 50% per year;
- Capital spending averages about $960 million for generation upgrades and transmission investments;
- Dividends of $450 million-$625 million per year;
- Discretionary cash flow is negative, indicating external funding that could include debt issuances; and
- All debt maturities are refinanced.

Key metrics

Table 1

LG&E and KU Energy LLC--Key Metrics*

	2020a	2021e	2022f
FFO to debt (%)	16.7	16-18	17-19

Table 1

LG&E and KU Energy LLC--Key Metrics* (cont.)

	2020a	2021e	2022f
FFO cash interest coverage (x)	5.8	6-6.5	6.5-7
Debt to EBITDA (x)	4.8	4.5-5	4.5-5

*All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast. FFO--Funds from operations.

Company Description

LKE is an intermediate holding company that owns two utilities that provide electric and natural gas utility service to 1.3 million customers, primarily in Kentucky.

Peer Comparison

Table 2

LG&E and KU Energy LLC--Peer Comparison

Industry sector: Electric				
	LG&E and KU Energy LLC	Integrys Holding Inc.	Evergy Inc.	Vectren Utility Holdings Inc.
Ratings as of April 13, 2021	A-/Stable/--	A-/Stable/A-2	A-/Stable/A-2	BBB+/Stable/A-2
	--Fiscal year ended Dec. 31, 2020--			
(Mil. $)				
Revenue	3,106.0	3,114.6	4,913.4	1,422.6
EBITDA	1,487.0	1,140.9	2,169.9	589.7
Funds from operations (FFO)	1,199.0	976.8	1,824.0	518.6
Interest expense	282.6	195.5	444.8	87.2
Cash interest paid	250.0	174.5	392.4	95.7
Cash flow from operations	1,023.0	783.8	1,764.5	521.5
Capital expenditure	966.0	1,298.6	1,551.5	660.6
Free operating cash flow (FOCF)	57.0	(514.8)	213.0	(139.1)
Discretionary cash flow (DCF)	(226.0)	(514.8)	(252.0)	(210.1)
Cash and short-term investments	29.0	6.6	144.9	8.2
Debt	7,177.5	4,843.6	11,549.7	2,396.3
Equity	5,116.0	4,856.6	8,718.5	2,289.1
Adjusted ratios				
EBITDA margin (%)	47.9	36.6	44.2	41.5
Return on capital (%)	7.0	7.8	6.1	6.9
EBITDA interest coverage (x)	5.3	5.8	4.9	6.8
FFO cash interest coverage (x)	5.8	6.6	5.6	6.4
Debt/EBITDA (x)	4.8	4.2	5.3	4.1
FFO/debt (%)	16.7	20.2	15.8	21.6
Cash flow from operations/debt (%)	14.3	16.2	15.3	21.8

Table 2

LG&E and KU Energy LLC--Peer Comparison (cont.)				
FOCF/debt (%)	0.8	(10.6)	1.8	(5.8)
DCF/debt (%)	(3.1)	(10.6)	(2.2)	(8.8)

Business Risk: Excellent

Our assessment of LKE's business risk profile incorporates the business strengths of its wholly owned subsidiaries Louisville Gas & Electric Co. (LG&E) and Kentucky Utilities Co. (KU). These utilities provide regulated, vertically integrated electric and natural gas distribution services primarily across Kentucky, with smaller service territories in Tennessee and Virginia. The geographic concentration in Kentucky is partly offset by the large customer base of about 1.3 million electric and natural gas customers. The company's customer base consists mostly of residential and commercial customers, mitigating the effect of fluctuating demand and resulting in stable and predictable cash flow.

Moreover, the company benefits from regulatory mechanisms, including forecast test years; environmental investment cost recovery, purchased power, fuel, and gas surcharges; and formulaic transmission rates. LKE has generation capacity of about 7,600 megawatts (MW), including sizable coal-fired capacity. LG&E and KU have been upgrading coal units to comply with environmental regulations. The utilities can recover the costs for these upgrades through environmental cost recovery mechanisms limits regulatory lag and supports operating cash flow. The utilities derive low rates from relatively safe and reliable coal-fired generation.

Financial Risk: Significant

Under our base-case scenario, we anticipate that LKE's stand-alone adjusted FFO to debt will be 16%-18% in 2021. Over the next few years, we expect FFO to debt to improve to 17%-19% as the company benefits from recovery mechanisms such as the environmental cost rider, as well as formulaic transmission rates and forward test years for rate cases. Supporting the financial risk profile determination is the supplemental ratio of FFO cash interest coverage that we expect will average about 6.5x over the next three years. We project adjusted debt to EBITDA will be 4.5x-5x, indicating leverage within the benchmark range of an aggressive financial risk profile. Over the forecast period, we expect continued capital spending averaging $960 million per year. When combined with the utility's dividend, this spending will result in negative discretionary cash flow.

We assess LKE's financial risk profile using our medial volatility financial benchmarks, reflecting its lower-risk regulated utility operations and effective management of regulatory risk. These benchmarks are more relaxed than those we use for typical corporate issuers.

Financial summary

Table 3

LG&E and KU Energy LLC -- Financial Summary

Industry sector: Electric

	--Fiscal year ended Dec. 31--				
	2020	**2019**	**2018**	**2017**	**2016**
(Mil. $)					
Revenue	3,106.0	3,206.0	3,214.0	3,156.0	3,141.0
EBITDA	1,487.0	1,466.0	1,363.0	1,452.1	1,418.6
Funds from operations (FFO)	1,199.0	1,197.8	1,094.6	1,187.7	1,231.5
Interest expense	282.6	282.8	260.2	253.6	255.1
Cash interest paid	250.0	239.2	222.4	216.5	211.1
Cash flow from operations	1,023.0	960.8	933.6	1,120.7	1,047.5
Capital expenditure	966.0	1,094.0	1,117.0	893.7	792.7
Free operating cash flow (FOCF)	57.0	(133.2)	(183.4)	227.0	254.8
Discretionary cash flow (DCF)	(226.0)	(441.2)	(485.4)	(175.0)	(61.2)
Cash and short-term investments	29.0	27.0	24.0	30.0	13.0
Gross available cash	29.0	27.0	24.0	30.0	13.0
Debt	7,177.5	7,032.9	6,763.2	6,503.0	6,294.8
Equity	5,116.0	4,942.0	4,723.0	4,563.0	4,667.0
Adjusted ratios					
EBITDA margin (%)	47.9	45.7	42.4	46.0	45.2
Return on capital (%)	7.0	7.2	7.4	8.7	8.7
EBITDA interest coverage (x)	5.3	5.2	5.2	5.7	5.6
FFO cash interest coverage (x)	5.8	6.0	5.9	6.5	6.8
Debt/EBITDA (x)	4.8	4.8	5.0	4.5	4.4
FFO/debt (%)	16.7	17.0	16.2	18.3	19.6
Cash flow from operations/debt (%)	14.3	13.7	13.8	17.2	16.6
FOCF/debt (%)	0.8	(1.9)	(2.7)	3.5	4.0
DCF/debt (%)	(3.1)	(6.3)	(7.2)	(2.7)	(1.0)

Reconciliation

Table 4

LG&E and KU Energy LLC--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts

	--Fiscal year ended Dec. 31, 2020--					
LG&E and KU Energy LLC reported amounts (mil. $)						
	Debt	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**
	6,790.0	1,420.0	814.0	260.0	1,487.0	1,003.0
S&P Global Ratings' adjustments						
Cash taxes paid	--	--	--	--	(38.0)	--
Cash interest paid	--	--	--	--	(248.0)	--
Reported lease liabilities	53.0	--	--	--	--	--

Table 4

LG&E and KU Energy LLC--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.)

Operating leases	--	22.0	2.0	2.0	(2.0)	20.0
Postretirement benefit obligations/deferred compensation	146.9	--	--	--	--	--
Accessible cash and liquid investments	(29.0)	--	--	--	--	--
Share-based compensation expense	--	11.0	--	--	--	--
Asset-retirement obligations	143.8	15.0	15.0	15.0	--	--
Nonoperating income (expense)	--	--	20.0	--	--	--
Debt: Other	72.8	--	--	--	--	--
EBITDA: Other income/(expense)	--	19.0	19.0	--	--	--
Depreciation and amortization: Other	--	--	(19.0)	--	--	--
Interest expense: Other	--	--	--	5.6	--	--
Total adjustments	387.5	67.0	37.0	22.6	(288.0)	20.0
S&P Global Ratings' adjusted amounts						
	Debt	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**
	7,177.5	1,487.0	851.0	282.6	1,199.0	1,023.0

Liquidity: Adequate

We assess LKE's stand-alone liquidity as adequate because we believe its liquidity sources will likely cover uses by more than 1.1x over the next 12 months and meet cash outflows even if EBITDA declines 10%. The assessment also reflects the company's generally prudent risk management, sound relationships with banks, and a generally satisfactory standing in the credit markets.

Principal liquidity sources

- Cash and liquid investments of about $30 million;
- Revolving credit facility availability of $900 million; and
- Estimated cash FFO of about $1.2 billion.

Principal liquidity uses

- Capital spending of about $400 million;
- Dividends of $455 million; and
- Debt maturities of $1.1 billion.

Environmental, Social, And Governance

Environmental risk factors hurt LKE's credit quality more than that of its peers given LKE's significant exposure to coal-based power generation through utilities LG&E and KU. Most of the total generation capacity--about 7,600 MW--is fueled by coal and natural gas. The company received regulatory approval for a green-energy tariff that provides an option for commercial and industrial customers to choose options to meet renewable energy goals. Over the longer term, the company expects to replace much of its coal-based generation with a combination of natural gas and renewables. Since 2010, LKE, through its subsidiaries, has retired about 1,200 MW of coal-generation plants. By 2050, parent PPL intends to reduce its carbon-based air emissions by 80% from 2010 levels.

Social and governance factors are in line with those of other regulated utilities.

Group Influence

Under our group rating methodology, we consider LKE a core subsidiary of parent PPL. The core status reflects our view that LKE is highly unlikely to be sold, has a strong long-term commitment from senior management, is successful at what it does, and contributes meaningfully to the group. Given its core subsidiary status and PPL's group credit profile of 'a-', the issuer credit rating on LKE is 'A-'.

Issue Ratings - Subordination Risk Analysis

Capital structure

LKE's capital structure consists of about $5.4 billion of debt, of which about $4.6 billion is priority debt.

Analytical conclusions

We rate the unsecured debt at LKE one notch below the issuer credit rating because priority debt exceeds 50% of the company's consolidated debt, after which point LKE's debt could be considered structurally subordinated.

Ratings Score Snapshot

Issuer Credit Rating

A-/Stable/--

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Excellent

Financial risk: Significant

- **Cash flow/leverage:** Significant

Anchor: a-

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a-

- **Group credit profile:** a-
- **Entity status within group:** Core (no impact)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	**a-**	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of April 13, 2021)*

LG&E and KU Energy LLC	
Issuer Credit Rating	A-/Stable/--
Senior Unsecured	BBB+
Issuer Credit Ratings History	
01-Jun-2015	A-/Stable/--
10-Jun-2014	BBB/Watch Pos/--
15-Apr-2011	BBB/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

S&P Global
Ratings

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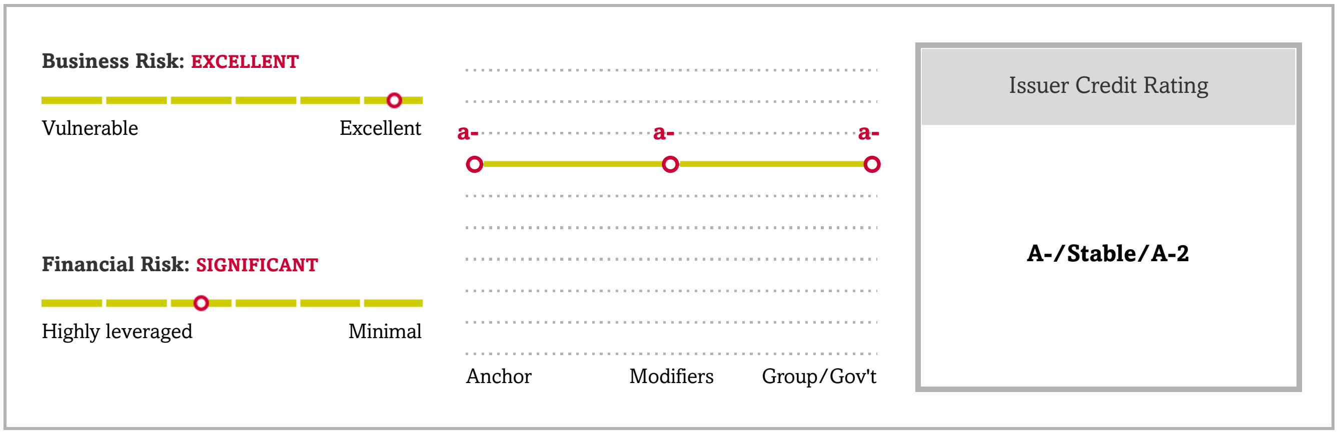

Credit Highlights

Overview

Key strengths	Key risks
Focus on regulated utility operations in the U.S. and U.K. that benefit from constructive regulatory frameworks.	Credit measures are at the lower end of the category's benchmark range.
Primarily low operating risk electricity transmission and distribution operations.	Attempt to sell U.K. operations continues to remain uncertain due to timing and ultimate price.
Large and diverse service territories that demonstrate modest growth.	In Kentucky, 70% of generation capacity is fueled by coal and natural gas.
Mostly credit-supportive regulation.	Beginning April 2023, operating cash flow could weaken after the U.K. regulator completes a regulatory review of electric distribution network operators (RIIO-ED2).
Operating cash flow supported by timely recovery of costs through base rates and rate surcharges.	

PPL Corp. (PPL) announced that it intends to sell Western Power Distribution PLC (WPD) and its U.K. operating subsidiaries. PPL plans to announce a transaction in the first half of 2021. PPL indicated it would evaluate all cash offers or offers involving combinations of cash and U.S. utility assets. This sale would remove the currency risk and the regulatory risk related to the forthcoming RIIO-ED2 price control review process for electric distribution companies that kicks off mid-2021. After completing the sale of WPD, management has indicated that it would use the proceeds to strengthen its balance sheet and would target a funds from operations (FFO)-to-debt ratio in the mid-teens (we believe at least 15%).

Environmental compliance has kept capital spending up. PPL has higher capital spending to comply with the Environmental Protection Agency's (EPA) Clean Air Act rules for coal combustion waste and byproducts created through coal-fired generation. Its Kentucky utilities, Kentucky Utilities Co. (KU) and Louisville Gas and Electric CO. (LG&E), are entitled to cost recovery through an environment cost recovery mechanism.

Pennsylvania's regulation supports credit quality. PPL subsidiary PPL Electric Utilities Corp. (PPL EU) operates in Pennsylvania where the regulatory framework is constructive and credit supportive.

PPL EU operates under a credit-supportive electric transmission framework. PPL EU has significant investments in Federal Energy Regulatory Commission (FERC)-regulated transmission, which provides stable returns through a formulaic rate mechanism.

Outlook: Stable

The stable outlook on PPL and its U.S.-based operations over the next six to 18 months reflects our view that the process of completing the sale of its U.K. operations could take until year-end 2021. If there is no sale, our stable outlook will continue to reflect the company's excellent business risk profile, which we view as being at the upper end of the range, and its significant financial risk profile, which we believe is near the lower end of its range, including our forecast for adjusted FFO to debt averaging about 14% in 2020 and 2021. If there is a sale, our stable outlook assumes there is no material increase in PPL's business risk and it follows through on its financial policy declarations to strengthen its balance sheet and maintain FFO to debt in the mid-teens percent area.

Downside scenario

We would lower our ratings if:

- PPL does not sell its U.K. operations, and its business risk remains unchanged and its core financial ratios weaken such that its adjusted FFO to debt remains consistently below 13%.
- The sale is completed, its business risk profile remains excellent, and its FFO to debt falls below 15%.

Upside scenario

Given our assessment of PPL's business risk and our base-case assumptions for its financial performance, we do not anticipate raising our rating before it completes the sale of its U.K. operations. However, if a sale does not take place, we could raise our ratings on the company if:

- It consistently achieves adjusted FFO to debt of more than 18% while it maintains its current level of business risk.

If the sale does take place, we could raise our ratings on the company if:

- There is no material increase in its business risk and its adjusted FFO to debt remains above 21%.

Our Base-Case Scenario

Assumptions

- Economic conditions in PPL's service territories continue to support a gradual increase in load growth;
- EBITDA margin of about 55% per year;
- Annual capital spending of $2 billion-$3 billion;
- Annual dividend growth in line with historical levels; and
- All debt maturities are refinanced.

Key Metrics

Table 1

PPL Corp.--Key Metrics

	2020e	2021e	2022e
Adjusted FFO to debt (%)	14.9-14.5	14.2-15.0	14.8-15.6
Adjusted debt to EBITDA (x)	5.1-5.4	4.0-5.4	4.8-5.1
Adjusted FFO interest coverage (x)	4.2-4.6	4.2-4.6	4.3-4.7

e--Estimate. FFO--Funds from operations.

- After dividends and capital spending, discretionary cash flow that is negative will require external funding needs including debt issuances.
- Adjusted FFO to debt is expected to be in the 13.5%-15% range, but it will hold steady after ongoing incremental cost recovery.
- Debt leverage, as indicated by debt to EBITDA, will remain high in the 4.8x-5.8x range.

Company Description

PPL is a utility holding company serving about 10.3 million electric customers in the U.K., Pennsylvania, and Kentucky, and 325,000 natural gas customers in Kentucky. The company's operations in Kentucky are fully integrated and are conducted through intermediate holding company LG&E and KU Energy LLC (LKE) that owns utilities LG&E and KU. Its Pennsylvania operations are conducted through PPL EU, and in the U.K., they're conducted through WPD's four electric distribution wires-only subsidiaries.

Peer Comparison

Table 2

PPL Corp. -- Peer Comparison

Industry sector: combo

	PPL Corp.	Eversource Energy	FirstEnergy Corp.	Berkshire Hathaway Energy Co.
Ratings as of Dec. 2, 2020	A-/Stable/A-2	A-/Stable/A-2	BB/Watch Neg/--	A/Stable/A-1
	--Fiscal year ended Dec. 31, 2019--			
(Mil. $)				
Revenue	7,769.0	8,460.0	10,948.1	19,844.0
EBITDA	4,208.0	2,910.4	3,838.1	7,503.3
FFO	3,220.7	2,314.0	2,856.0	6,466.9
Interest expense	1,009.1	568.3	1,020.3	2,046.4
Cash interest paid	894.3	540.4	970.1	1,886.4
Cash flow from operations	2,470.7	1,946.8	2,427.0	6,287.9
Capital expenditure	3,073.0	2,885.9	2,639.0	7,305.9
FOCF	(602.3)	(939.1)	(212.0)	(1,018.0)
DCF	(1,818.6)	(1,606.1)	(1,032.0)	(1,311.0)

Table 2

PPL Corp. -- Peer Comparison (cont.)				
Industry sector: combo				
	PPL Corp.	**Eversource Energy**	**FirstEnergy Corp.**	**Berkshire Hathaway Energy Co.**
Cash and short-term investments	815.0	15.4	627.0	1,068.0
Debt	22,477.5	16,357.6	22,431.7	44,684.5
Equity	13,456.0	12,707.8	6,975.0	32,578.0
Adjusted ratios				
EBITDA margin (%)	54.2	34.4	35.1	37.8
Return on capital (%)	8.2	6.0	9.1	6.4
EBITDA interest coverage (x)	4.2	5.1	3.8	3.7
FFO cash interest coverage (x)	4.6	5.3	3.9	4.4
Debt/EBITDA (x)	5.3	5.6	5.8	6.0
FFO/debt (%)	14.3	14.1	12.7	14.5
Cash flow from operations/debt (%)	11.0	11.9	10.8	14.1
FOCF/debt (%)	(2.7)	(5.7)	(0.9)	(2.3)
DCF/debt (%)	(8.1)	(9.8)	(4.6)	(2.9)

FFO--Funds from operations. FOCF--Free operating cash flow. DCF--Discretionary cash flow.

Business Risk: Excellent

Our assessment of PPL's business risk profile reflects its very low-risk, regulated utility operations that provide essential services, have material barriers to entry, and essentially operate as a monopoly insulated from market challenges. The utility industry generally experiences stable demand. PPL's business risk profile benefits from geographic and regulatory diversity, serving about 10.5 million customers across two states in the U.S., as well as across the U.K. Although the service territories demonstrate only modest growth, residential and commercial customers contribute most revenue and sales, providing stability and predictability to cash flow generation. PPL's regulated utilities operate under regulatory terms that largely support credit quality and are generally stable frameworks in the U.S. and U.K. These subsidiaries use various regulatory mechanisms, including rate surcharges available within their respective regulatory frameworks to consistently earn returns that are close to or at the authorized levels. If WPD is sold, we would expect PPL's business risk profile to remain unchanged if only comprising PPLEU and the Kentucky utilities.

Financial Risk: Significant

Our base-case scenario includes adjusted FFO to debt of 13.5%-15.0% through 2022, near the lower end of the category's benchmark range. Adjusted FFO cash interest coverage bolsters our determination since in our base-case scenario we expect the measure to be in the 4.4x-4.9x range, or nearing the upper end of our benchmark range, through our forecast period. Although credit measures are weaker, we expect them to improve due to the utilities' timely recovery of invested capital and operating expenses. We expect PPL will continue to have external funding needs because we think it will have ongoing negative discretionary cash flow after capital spending and dividend payments. We anticipate PPL's debt leverage will remain elevated, with debt to EBITDA of 4.8x-5.8x, largely influenced by the capitalization of the U.K. subsidiaries. Overall, we expect PPL will continue to fund investments in a manner that preserves credit quality.

If WPD is sold, PPL management has indicated that it would use the sale proceeds to strengthen its balance sheet and would target an FFO-to-debt ratio in the mid-teens percent area (we believe at least 15%). We would therefore expect PPL's financial risk profile to remain unchanged from our current assessment. We base our financial risk assessment on our medial volatility table, which reflects more relaxed financial ratio benchmarks than the benchmarks used for a typical corporate issuer. This reflects PPL's steady cash flows from its low-risk, rate-regulated electric and gas utility operations.

Financial summary

Table 3

PPL Corp. -- Financial Summary

Industry sector: combo					
	--Fiscal year ended Dec. 31--				
	2019	**2018**	**2017**	**2016**	**2015**
(Mil. $)					
Revenue	7,769.0	7,785.0	7,447.0	7,517.0	7,669.0
EBITDA	4,208.0	4,103.0	4,090.5	4,018.0	3,836.5
FFO	3,220.7	3,071.3	3,186.9	3,105.1	2,846.1
Interest expense	1,009.1	984.6	921.7	906.9	885.3
Cash interest paid	894.3	904.7	838.6	842.9	811.4
Cash flow from operations	2,470.7	2,855.3	2,498.9	2,933.1	2,660.1
Capital expenditure	3,073.0	3,223.0	3,160.0	2,946.0	3,522.0
FOCF	(602.3)	(367.7)	(661.1)	(12.9)	(861.9)
DCF	(1,818.6)	(1,527.1)	(1,756.8)	(1,072.3)	(1,895.2)
Cash and short-term investments	815.0	621.0	485.0	341.0	836.0
Gross available cash	815.0	621.0	485.0	341.0	836.0
Debt	22,477.5	21,801.9	21,403.0	19,771.2	20,342.3
Equity	13,456.0	12,122.0	11,226.0	10,364.0	10,384.0
Adjusted ratios					
EBITDA margin (%)	54.2	52.7	54.9	53.5	50.0
Return on capital (%)	8.2	8.6	9.3	9.7	8.8
EBITDA interest coverage (x)	4.2	4.2	4.4	4.4	4.3
FFO cash interest coverage (x)	4.6	4.4	4.8	4.7	4.5
Debt/EBITDA (x)	5.3	5.3	5.2	4.9	5.3
FFO/debt (%)	14.3	14.1	14.9	15.7	14.0
Cash flow from operations/debt (%)	11.0	13.1	11.7	14.8	13.1
FOCF/debt (%)	(2.7)	(1.7)	(3.1)	(0.1)	(4.2)
DCF/debt (%)	(8.1)	(7.0)	(8.2)	(5.4)	(9.3)

FFO--Funds from operations. FOCF--Free operating cash flow. DCF--Discretionary cash flow.

Reconciliation

Table 4

PPL Corp.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts

--Fiscal year ended Dec. 31, 2019--

PPL Corp. reported amounts (mil. $)

	Debt	Shareholders' equity	EBITDA	Operating income	Interest expense	S&P Global Ratings' adjusted EBITDA	Cash flow from operations	Dividends	Capital expenditure
	23,044.00	12,991.00	4,039.00	2,840.00	994.00	4,208.00	2,427.00	1,192.00	3,083.00
S&P Global Ratings' adjustments									
Cash taxes paid	--	--	--	--	--	(93.00)	--	--	--
Cash interest paid	--	--	--	--	--	(905.00)	--	--	--
Reported lease liabilities	104.00	--	--	--	--	--	--	--	--
Operating leases	--	--	33.00	3.62	3.62	(3.62)	29.38	--	--
Intermediate hybrids reported as debt	(465.00)	465.00	--	--	(24.37)	24.37	24.37	24.37	--
Postretirement benefit obligations/deferred compensation	274.92	--	--	--	--	--	--	--	--
Accessible cash and liquid investments	(815.00)	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	10.00	(10.00)	(10.00)	--	(10.00)
Share-based compensation expense	--	--	36.00	--	--	--	--	--	--
Asset-retirement obligations	222.78	--	19.00	19.00	19.00	--	--	--	--
Nonoperating income (expense)	--	--	--	7.00	--	--	--	--	--
Debt: Other	111.77	--	--	--	--	--	--	--	--
EBITDA: Other	--	--	81.00	81.00	--	--	--	--	--
Depreciation and amortization: Other	--	--	--	(81.00)	--	--	--	--	--
Interest expense: Other	--	--	--	--	6.88	--	--	--	--
Total adjustments	(566.53)	465.00	169.00	29.62	15.14	(987.25)	43.75	24.37	(10.00)

S&P Global Ratings' adjusted amounts

	Debt	Equity	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Dividends paid	Capital expenditure
	22,477.47	13,456.00	4,208.00	2,869.62	1,009.14	3,220.75	2,470.75	1,216.37	3,073.00

Liquidity: Adequate

We assess PPL's liquidity as adequate because we believe its liquidity sources will likely cover its uses by more than 1.1x over the next 12 months and meet its cash flows even if its EBITDA declines by 10%. Our assessment also reflects PPL's generally prudent risk management, sound relationships with banks, and generally satisfactory standing in the credit markets. We also believe the company could absorb high-impact, low probability events with limited need for refinancing.

Principal liquidity sources	Principal liquidity uses
• Cash and liquid investments of about $1.3 billion; • Estimated cash FFO of about $3.4 billion; and • Revolving credit facility availability of about $4.5 billion.	• Debt maturities, including outstanding commercial paper, of about $3.3 billion; • Capital spending of about $2.7 billion; and • Dividends of roughly $1.1 billion.

Debt maturities

- 2020: $1.2 billion
- 2021: $1.6 billion
- 2022: $1.3 billion
- 2023: $2.3 billion
- 2024: $0.9 billion

Covenant Analysis

Compliance expectations

As of June 30, 2020, PPL and its subsidiaries were in compliance with the financial covenants in their credit facilities and had sufficient cushion. Under our base-case scenario, we expect PPL and its subsidiaries will remain in compliance with these covenants, especially given the stability of the regulated utility operations.

Requirements

- PPL and its subsidiaries, PPL EU, intermediate holding company LKE, KU and LG&E must maintain a total-debt-to-capitalization ratio of 70% or less.
- PPL's U.K. subsidiaries must maintain an EBITDA-to-interest-coverage ratio of no less than 3x and a total-debt-to-regulated-asset-value ratio of 85% or less.
- The covenant thresholds remain unchanged through the expiration of the credit facilities.

Environmental, Social, And Governance

Environmental factors are material in our rating analysis, while social and governance factors are not. Although PPL is mostly a networks-based utility holding company, credit quality is more negatively influenced by environmental factors compared to peers. Most of the total generation capacity, about 5,000 megawatts are coal-fired, presenting an environmental risk factor. By 2050, PPL intends to reduce its carbon footprint 70%. In Kentucky, the company expects to replace much of its coal-based generation with a combination of natural gas and renewables.

Group Influence

Under our group rating methodology, we assess PPL as the parent of a group that includes U.S.-based subsidiaries PPL Capital Funding Inc., PPLEU, LKE, LG&E, and KU. PPL's group credit profile is 'a-', leading to an issuer credit rating of 'A-'. Although PPL retains ownership of WPD and its operating subsidiaries, their group status is considered nonstrategic and therefore the ratings on them are completely based on their stand-alone credit profiles.

Issue Ratings - Subordination Risk Analysis

Capital structure

PPL's capital structure comprises roughly $23 billion of debt, of which about $18 billion is priority debt.

We base our 'A-2' short-term rating on PPL on our long-term issuer credit rating on the company.

We rate PPL Capital Funding's junior subordinated debt obligations, which are effectively obligations of PPL because it unconditionally guarantees PPL Capital Funding's obligations, two notches below our issuer credit rating. The two notches reflect the securities' greater credit risk, including their permanence, subordination in liquidation to all senior debt obligations, and deferability features.

Analytical conclusions

We rate PPL's unsecured debt one notch below our long-term issuer credit rating because its priority debt exceeds 50% of its consolidated debt, which is consistent with our criteria.

Ratings Score Snapshot

Issuer Credit Rating

A-/Stable/A-2

Business risk: Excellent

- **Country risk:** Very low

- **Industry risk:** Very low
- **Competitive position:** Excellent

Financial risk: Significant

- **Cash flow/leverage:** Significant

Anchor: a-

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a-

- **Group credit profile:** a-

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
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- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	**a-**	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of December 7, 2020)*

PPL Corp.		
Issuer Credit Rating		A-/Stable/A-2
Issuer Credit Ratings History		
14-Oct-2015	*Foreign Currency*	A-/Stable/A-2
01-Jun-2015		A-/Stable/NR
10-Jun-2014		BBB/Watch Pos/NR
14-Oct-2015	*Local Currency*	A-/Stable/A-2
01-Jun-2015		A-/Stable/NR
10-Jun-2014		BBB/Watch Pos/NR
Related Entities		
PPL Capital Funding Inc.		
Issuer Credit Rating		A-/Stable/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

S&P Global
Ratings

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Research Update:

PPL Corp., Subsidiaries Ratings Affirmed On Announcement Of Transactions

March 19, 2021

Rating Action Overview

- PPL Corp. announced it is selling U.K. utility holding company Western Power Distribution PLC (WPD) and its four distribution network operators to National Grid PLC for $10.5 billion. National Grid will assume WPD's total debt of roughly $8.9 billion, with closing expected in mid-2021.
- Separately, PPL will purchase Narragansett Electric Co. (NECO) from National Grid North America Inc. for $3.8 billion and assume NECO's debt of roughly $1.5 billion, with closing expected by the end of the first quarter of 2022.
- In addition, management has indicated PPL will maintain robust financial measures after these transactions, using much of the proceeds to strengthen its balance sheet. PPL indicated it will target a funds from operations (FFO) to debt ratio of 16%-18%.
- We affirmed our 'A-' issuer credit rating on PPL and U.S.-based subsidiaries PPL Capital Funding Inc. (PPL Capital), PPL Electric Utilities Corp. (PPLEU), LG&E and KU Energy LLC (LKE), Louisville Gas & Electric Co. (LG&E), and Kentucky Utilities Co. (KU).
- The stable outlook on PPL incorporates our view that, following the sale of WPD and subsequent purchase of NECO, its business will comprise only U.S. operations, which we expect to be largely regulated utilities. We also expect financial measures will support the 'A-' issuer credit rating.
- The positive outlook on PPLEU reflects our view that potentially stronger stand-alone financial measures and sufficient insulating measures could lead to a rating one notch above the rating on PPL. We could raise the rating on PPLEU if its stand-alone FFO to debt consistently exceeds 21% without any increase of business risk.
- For LG&E and KU, we expect their stand-alone credit profiles to remain 'a-'. We assess their stand-alone financial measures at the higher end of their significant financial risk profiles, offsetting material exposure to coal-fired generation relative to total generation.

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Rating Action Rationale

We affirmed our ratings on PPL, PPLEU, LKE, LG&E, and KU to reflect the sale of WPD and its U.K. operating subsidiaries and subsequent purchase of NECO. PPL will receive $10.5 billion cash ($10.2 billion after taxes and fees) and divest $8.9 billion of debt (based on $1.35/pound exchange rate) with the WPD sale. The company indicated it will use the cash to purchase NECO for $3.8 billion and redeem debt up to roughly $3.5 billion, leaving about $3 billion cash. The WPD sale is expected to close by mid-2021 and is not contingent on PPL buying NECO, which is expected to close by the second quarter of 2022. When NECO is acquired, we would likely consider NECO core to PPL.

The sale of WPD and its operating utilities would not materially weaken PPL's business risk profile. The U.K. wires-only distribution networks, with no commodity exposure, tended to strengthen PPL's business risk profile. These sales would also remove currency risk and regulatory risk related to the forthcoming RIIO-ED2 price control review process for electricity distribution companies in mid-2021. If PPL's business comprises only PPLEU and the Kentucky utilities, and after it purchases NECO, we would expect PPL's business risk profile to modestly weaken. NECO operates in a state with regulation considered largely to support credit quality. NECO is smaller than WPD with significantly fewer customers, serves both natural gas and electricity distribution customers, and operates electricity transmission. Operationally, the natural gas distribution business with older cast iron and bare steel pipes increases the risk of a natural gas leak, fire, or explosion.

We expect PPL's financial risk profile to remain in line with our current assessment. After selling WPD, acquiring NECO, and redeeming debt, we expect adjusted FFO to debt of 16%-18% through 2022.

Outlook: PPL, PPL Capital, LKE, LG&E, KU

The rating outlook is stable for PPL and subsidiaries PPL Capital, LKE, LG&E, and KU. This is based on our expectations that PPL's consolidated financial measures will remain generally stable throughout the WPD and NECO transactions. We expect FFO to debt of about 17%, indicating minimal financial cushion from the downgrade threshold.

Downside scenario

We could lower the ratings over the next 24 months on PPL, PPL Capital, LKE, LG&E, and KU if:

- PPL's business risk is unchanged; and
- Core credit ratios weaken such that PPL's adjusted FFO to debt is consistently below 16%.

Upside scenario

Given our assessment of business risk and our base-case scenario for financial performance, we do not anticipate higher ratings during the next 24 months. However, we could raise ratings if:

- PPL's adjusted FFO to debt is more than 21% on a consistent basis; and

- It maintains its business risk.

Outlook: PPLEU

The positive rating outlook on PPLEU reflects our expectations for improved stand-alone financial measures that consistently reflect the higher end of the range for PPLEU's financial risk profile category. Under our base case, we expect adjusted FFO to debt of 20%-22%.

Downside scenario

We could affirm the ratings on PPLEU and revise the outlook to stable over the next 12 months if:

- Business risk increases; or
- Financial measures weaken, such that FFO to debt is consistently below 21%.

Upside scenario

We could raise the ratings on PPLEU over the next 12 months if:

- We don't change the ratings on PPL;
- PPLEU's business risk does not increase; and
- Its stand-alone financial measures consistently reflect FFO to debt above 21%.

Liquidity

We assess PPL's liquidity as adequate because we believe sources will likely cover uses by more than 1.1x over the next 12 months and meet cash outflows even if EBITDA declines 10%. Our assessment also reflects PPL's generally prudent risk management, sound relationships with banks, and satisfactory standing in the credit markets. We also believe PPL would absorb high-impact, low-probability events with limited need for refinancing.

Principal liquidity sources:

- Estimated cash FFO from existing operations of about $2.2 billion;
- Cash proceeds from asset sales of $10.2 billion, net of fees and taxes; and
- Undrawn bank lines of about $3.1 billion.

Principal liquidity uses:

- Debt maturities, including outstanding commercial paper, of about $5.5 billion;
- Capital spending of about $2.5 billion;
- Working capital outflows of about $50 million;
- Acquisition of NECO of about $3.8 billion; and
- Dividends of about $950 million.

Issue Ratings – Subordination Risk Analysis

- We base our 'A-2' short-term rating on PPL on our long-term issuer credit rating.
- We rate PPL Capital Funding's junior subordinated debt obligations, which are effectively obligations of PPL because it unconditionally guarantees the subsidiary's obligations, two notches below our issuer credit rating. This reflects the securities' greater credit risk, including their permanence, subordination in liquidation to all senior debt obligations, and deferability features.

Capital structure

PPL's capital structure comprises about $24 billion of debt, of which about $18 billion is priority debt. After divesting WPD and redeeming debt, we estimate it will comprise about $12 billion of debt, of which about $9 billion would be priority debt redemption. If the purchase of NECO is completed, we expect total debt and priority debt to increase by the $1.5 billion that would be assumed.

Key analytical factors

We rate PPL's unsecured debt one notch below our long-term issuer credit rating because its priority debt exceeds 50% of its consolidated debt, consistent with our criteria.

Ratings Score Snapshot

PPL Corp.

Issuer credit rating	A-/Stable/A-2
Business risk	Excellent
Country risk	Very low
Industry risk	Very low
Competitive position	Strong
Financial risk	Significant
Cash flow/Leverage	Significant
Anchor	a-
Modifiers	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)

PPL Corp. (cont.)

Stand-alone credit profile	a-
Group credit profile	a-

PPL Electric Utilities Corp.

Issuer credit rating	A-/Positive/A-2
Business risk	Excellent
Country risk	Very low
Industry risk	Very low
Competitive position	Strong
Financial risk	Significant
Cash flow/Leverage	Significant
Anchor	a-
Modifiers	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	a-
Group credit profile	a-

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013

- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed		
PPL Corp.		
PPL Capital Funding Inc.		
Louisville Gas & Electric Co.		
Kentucky Utilities Co.		
Issuer Credit Rating	A-/Stable/A-2	
LG&E and KU Energy LLC		
Issuer Credit Rating	A-/Stable/--	
Ratings Affirmed; Outlook Action		
	To	**From**
PPL Electric Utilities Corp.		
Issuer Credit Rating	A-/Positive/A-2	A-/Stable/A-2
Issue-Level Ratings Affirmed; Recovery Ratings Unchanged		
Kentucky Utilities Co.		
Louisville Gas & Electric Co.		
PPL Electric Utilities Corp.		
Senior Secured	A	
Recovery Rating	1+	
Issue-Level Ratings Affirmed		
Kentucky Utilities Co.		
Louisville Gas & Electric Co.		
PPL Capital Funding Inc.		
PPL Electric Utilities Corp.		
Commercial Paper	A-2	
LG&E and KU Energy LLC		
PPL Capital Funding Inc.		
Senior Unsecured	BBB+	
PPL Capital Funding Inc.		
Junior Subordinated	BBB	

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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Bulletin:

PPL Corp. Completes Western Power Distribution PLC Sale

June 14, 2021

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NEW YORK (S&P Global Ratings) June 14, 2021--S&P Global Ratings today said that PPL Corp.'s (PPL; A-/Stable/A-2) financial risk profile assessment remains significant following the completed sale of U.K. utility holding company Western Power Distribution PLC (WPD) and its four distribution network operators to National Grid PLC. The sale was completed for $10.7 billion cash and National Grid's assumption of WPD's total debt of roughly $9 billion (based on $1.35/pound exchange rate). Under our base-case scenario, we have assumed this sale would be completed in line with today's closing.

PPL indicated it will use the cash proceeds to redeem outstanding debt up to about $3.5 billion and in a separate transaction with National Grid, purchase Narragansett Electric Co. (NECO) for $3.8 billion, leaving about $3 billion cash. The NECO transaction is expected to close by the end of the second quarter 2022.

After the WPD sale, NECO acquisition, and debt redemption, we expect adjusted funds from operations to debt of 16%-18% through 2022. We therefore expect PPL's financial risk profile to remain in line with our current assessment of significant. The ratings on PPL are unchanged.

For more information, please see our most recent research update on PPL, published March 19, 2021, on RatingsDirect.

This report does not constitute a rating action.

Division 8-5

Request:

To the extent not already provided, please provide all Narragansett credit rating reports issued since January 1, 2019.

Response:

PPL and PPL RI refer to the response of National Grid USA and The Narragansett Electric Company to data request Division 8-5.

Division 8-6

Request:

Please provide a five-year history of credit ratings for PPL and each of PPL's U.S. utility subsidiaries. This history should identify for each entity: the issuer or corporate ratings, unsecured debt ratings, secured debt ratings and short-term debt ratings during the specified five-year period.

Response:

PPL and PPL RI refer to Attachment PPL-DIV 8-6-1 that includes the five-year history of credit ratings for PPL and each of PPL's U.S. utility subsidiaries.

Prepared by or under the supervision of: Tadd Henninger

5 Year Historical Ratings

Moody's 5 Year Historical Summary

Issuer	6/30/2021	12/31/2020	12/31/2019	12/31/2018	12/31/2017	12/31/2016
PPL Corporation						
Issuer Rating	Baa2	Baa2	Baa2	Baa2	Baa2	Baa2
Outlook	**Positive**	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**
PPL Capital Funding						
Senior Unsecured	Baa2	Baa2	Baa2	Baa2	Baa2	Baa2
Junior Subordinated Notes	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3
Short-term/Commercial Paper	P-2	P-2	P-2	P-2	P-2	P-2
Outlook	**Positive**	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**
PPL Electric Utilities						
Issuer Rating	A3	A3	A3	A3	A3	A3
Senior Secured/First Mortgage Bonds	A1	A1	A1	A1	A1	A1
Tax Exempt Bonds(1)	A1/A3	A1/A3	A1/A3	A1/A3	A1/A3	A1/A3
Short-term/Commercial Paper	P-2	P-2	P-2	P-2	P-2	P-2
Outlook	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**
LG&E and KU Energy LLC						
Issuer Rating	Baa1	Baa1	Baa1	Baa1	Baa1	Baa1
Senior Unsecured	Baa1	Baa1	Baa1	Baa1	Baa1	Baa1
Outlook	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**
LG&E						
Issuer Rating	A3	A3	A3	A3	A3	A3
Senior Secured/First Mortgage Bonds	A1	A1	A1	A1	A1	A1
Tax Exempt Bonds(1)	A1/P-2	A1/P-2	A1/P-2	A1/P-2	A1/P-2	A1/P-2
Short-term/Commercial Paper	P-2	P-2	P-2	P-2	P-2	P-2
Outlook	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**
Kentucky Utilities						
Issuer Rating	A3	A3	A3	A3	A3	A3
Senior Secured/First Mortgage Bonds	A1	A1	A1	A1	A1	A1
Tax Exempt Bonds(1)	A1/P-2	A1/P-2	A1/P-2	A1/P-2	A1/P-2	A1/P-2
Short-term/Commercial Paper	P-2	P-2	P-2	P-2	P-2	P-2
Outlook	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**

(1) Ratings may differ for each issuance due to differences on credit backing (Letter of Credit/Insured), if applicable.

S&P's 5 Year Historical Summary

Issuer	6/30/2021	12/30/2020	12/30/2019	12/30/2018	12/30/2017	12/30/2016
PPL Corporation						
Issuer Rating	A-	A-	A-	A-	A-	A-
Short-term Issuer Rating	A-2	A-2	A-2	A-2	A-2	A-2
Outlook	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**
PPL Capital Funding						
Issuer Rating	A-	A-	A-	A-	A-	A-
Senior Unsecured	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+
Junior Subordinated Notes	BBB	BBB	BBB	BBB	BBB	BBB
Short-term/Commercial Paper	A-2	A-2	A-2	A-2	A-2	A-2
Outlook	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**
PPL Electric Utilities						
Issuer Rating	A-	A-	A-	A-	A-	A-
Senior Secured/First Mortgage Bonds	A	A	A	A	A	A
Tax Exempt Bonds(1)	A	A	A	A	A	A
Short-term/Commercial Paper	A-2	A-2	A-2	A-2	A-2	A-2
Outlook	**Positive**	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**
LG&E and KU Energy LLC						
Issuer Rating	A-	A-	A-	A-	A-	A-
Senior Unsecured	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+
Outlook	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**
LG&E						
Issuer Rating	A-	A-	A-	A-	A-	A-
Senior Secured/First Mortgage Bonds	A	A	A	A	A	A
Tax Exempt Bonds(1)	A/A-2	A/A-2	A/A-2	A/A-2	A/A-2	A/A-2
Short-term/Commercial Paper	A-2	A-2	A-2	A-2	A-2	A-2
Outlook	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**
Kentucky Utilities						
Issuer Rating	A-	A-	A-	A-	A-	A-
Senior Secured/First Mortgage Bonds	A	A	A	A	A	A
Tax Exempt Bonds(1)	A/A-2	A/A-2	A/A-2	A/A-2	A/A-2	A/A-2
Short-term/Commercial Paper	A-2	A-2	A-2	A-2	A-2	A-2
Outlook	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**

(1) Ratings may differ for each issuance due to differences on credit backing (Letter of Credit/Insured), if applicable.

Division 8-7

Request:

Please provide a comprehensive listing and description of all "ring fencing" measures to be implemented and maintained for Narragansett to protect Narragansett from affiliate risk and potential affiliate abuse post-closing on this Transaction. This should include both structural measures (e.g., maintaining Narragansett as a distinct corporate subsidiary with its own board of directors) and behavioral measures (e.g., a prohibition on Narragansett guaranteeing debt of an affiliate). For each measure identified, please state whether this is a commitment associated with the approval of this Transaction.

Response:

PPL expects to maintain Narragansett as a distinct corporate subsidiary with its own Board of Directors, which is consistent with PPL's other U.S. utility subsidiaries. PPL has previously outlined other behavioral measures as part of its response to data request Division 6-3 and incorporates that response by reference. The measure described in this response and the measures described in the response to data request Division 6-3 are PPL's plans and expectations for its operation of Narragansett post-closing; they are not currently specific commitments being made to obtain approval of this Transaction.

Prepared by or under the supervision of: Tadd Henninger

Division 8-8

Request:

The Advocacy Section understands that all of Narragansett's outstanding long-term debt is in the form of unsecured notes (other than the legacy Providence Gas first mortgage bonds). All else equal, for a given utility company and debt tenor, secured debt generally carries a lower cost rate than unsecured debt. Please state whether Narragansett will be issuing secured or unsecured debt following the close of the Transaction. If PPL is unwilling to issue secured debt in order to minimize costs for Narragansett debt in the future, please explain why.

Response:

After the transaction closes, PPL will evaluate Narragansett's current financing structure that is primarily senior unsecured long-term debt to determine if that is the most cost-effective structure and efficient form of financing prospectively. Narragansett may issue additional unsecured debt if appropriate under the circumstances. Currently, PPL's U.S. utility subsidiaries are SEC Registrants that access the public capital markets to issue senior secured debt through a First Mortgage Bond indenture. PPL plans to evaluate the cost benefits and constraints associated with making Narragansett an SEC registrant, which would also provide Narragansett the ability to issue senior secured, First Mortgage bonds in the public market versus senior unsecured debt via private placement.

Division 8-9

Request:

Please provide any plans or expectations regarding Narragansett's issuance of long-term over the next three years. The response should provide the approximate dollar amount and timing of such planned or anticipated issuances.

Response:

PPL is currently evaluating Narragansett's business plan that includes a determination of long-term debt issuances over the next three years. The determination of the amount and timing of any such debt issuances is influenced by many factors including the underlying cash flows, upcoming debt maturities and the amount of expected capital expenditures over that timeframe. PPL does not expect to need to refinance any long-term debt maturities in the next three years given Narragansett's next significant debt maturity is $350 million in 2028. Any long-term debt issuances prior to that will be driven primarily by the timing and extent of ongoing capital expenditures and the ability to maintain consistent operating cash flows. PPL and PPL RI also refer to National Grid and Narragansett's response to data request Division 8-9.

Prepared by or under the supervision of: Tadd Henninger

Division 8-10

Request:

Please describe the role (if any) of PPL Capital Funding, Inc. will have, whether directly or indirectly, in providing financing for Narragansett following the close of the Transaction.

Response:

PPL Capital Funding is the financing entity of PPL Corporation that issues senior unsecured debt for the purpose of providing financing support to PPL's subsidiaries. PPL Capital Funding will likely provide Narragansett financial support indirectly through affiliate loans or capital contributions to balance and maintain Narragansett's capital structure following the close of the Transaction.

Division 8-11

Request:

In past base rate cases in recent years, Narragansett has removed "goodwill" on its balance sheet from the equity balance used to calculate its ratemaking capital structure. Please state whether PPL commits to continuing this practice for the ratemaking capital structure in the future. If PPL does not commit to continuing this practice, please explain why.

Response:

PPL plans to continue to exclude "goodwill" from the equity balance used to calculate its ratemaking capital structure. PPL will continue to exclude goodwill from this calculation so long as this treatment of goodwill remains consistent with the prevailing regulatory best practices with respect to ratemaking capital structure.

Prepared by or under the supervision of: Stephen Breininger and Tadd Henninger

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Division 8-12

Request:

Please state whether PPL and its U.S. utility subsidiaries operate a utility money pool. If the answer is yes, state whether Narragansett will participate in that money pool following the close of the Transaction. If there is no such money pool at present, please state whether PPL anticipates implementing such an arrangement in the future, and provide detail regarding any such plans.

Response:

PPL does not operate a corporate money pool that includes all its U.S. utility subsidiaries. However, LG&E and KU participate in a money pool arrangement with their parent company, LKE. This money pool arrangement in Kentucky provides the ability to utilize cash amongst these operating subsidiaries that are jointly managed for purposes of rate case proceedings and ongoing financing needs with the Kentucky Public Service Commission. PPL currently has no plans to implement a utility money pool following the close of the Transaction, nor does PPL intend to have Narragansett participate in the LKE money pool arrangement. PPL will continue to evaluate and consider whether a money pool would be beneficial prospectively. This evaluation would include the cost benefits associated with that arrangement for Narragansett and PPL's other U.S. utility subsidiaries, including any required regulatory approvals in all of PPL's regulatory jurisdictions.

Division 8-13

Request:

Narragansett's practice in recent years has been to issue its own long-term debt by either public issue or private placement. Please state whether Narragansett will continue to obtain its long-term debt capital in this manner (i.e., on its own rather than financing through a corporate affiliate) following the close of the Transaction.

Response:

PPL expects to continue to have Narragansett issue its own long-term debt to finance its long-term capital following the close of the Transaction. In addition, Narragansett will likely have access to participating in long-term affiliate borrowing arrangements indirectly with PPL Capital Funding to the extent Narragansett is unable to access long-term capital or if that were to provide a more efficient source of long-term financing.

PPL and PPL RI also refer to their responses to data requests Division 8-8 and Division 8-10.

Prepared by or under the supervision of: Tadd Henninger

Division 8-14

Request:

Please state whether PPL commits to maintaining a minimum common equity ratio (i.e., excluding any goodwill on its balance sheet) for Narragansett following the close of the Transaction. If yes, please identify that minimum percentage.

Response:

PPL is not committing to maintaining a minimum common equity ratio for Narragansett following the close of the Transaction, but, consistent with PPL's practice in its other jurisdictions, PPL will manage Narragansett's common equity ratio to remain substantially consistent with the approved common equity ratio from Narragansett's most recent rate case, Rhode Island Public Utilities Commission Docket No. 4770, which is currently approximately 51%.

Prepared by or under the supervision of: Tadd Henninger

Division 8-15

Request:

Please provide Narragansett's balance sheet (with footnotes) as of June 30, 2021.

Response:

PPL and PPL RI refer to the response of National Grid USA and The Narragansett Electric Company to data request Division 8-15.

Prepared by or under the supervision of: Stephen K. Breininger

Division 8-16

Request:

Please state whether the Transaction will cause Narragansett to alter its capital structure policies and practices as compared with the alternative of continued National Grid ownership. The response should describe all such anticipated changes, and the reasons for such changes.

Response:

PPL does not expect the Transaction will alter Narragansett's capital structure policies and practices based upon our understanding of National Grid's policies and practices. PPL expects Narragansett will pay quarterly dividends. Although this practice differs from National Grid USA's recent practice with respect to dividend payments, PPL will continue to maintain compliance with the dividend payment limitations provided for by the Federal Energy Regulatory Commission's ("FERC") order in *New England Power and Montaup Electric Company*, Docket No. EL00-18-00, 89 FERC ¶ 61266 (December 15, 1999) and consistent with Narragansett's obligations related to its outstanding Preferred Stock. In addition, PPL plans to target a balanced capital structure using capital contributions and the issuance of both short-term and long-term debt to finance ongoing capital to target a common equity ratio consistent with Narragansett's current Rhode Island Public Utilities Commission-approved common equity ratio from its most recent rate case in Docket No. 4770. For additional information responsive to this request, please see PPL and PPL RI's response to data request 8-14.

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